GENERAL INVESTMENT CLIMATE

The Economy

Turbulence ahead! In the Western world, inflation remains at its highest point since the turn of the century. Inflation in the Netherlands came in at 17% in the month of September. Worldwide, inflation is a different story. Currently, only 4 countries of the G20 have lower inflation than 4% (China, Japan, Saudi Arabia, and Switzerland). Important to note is that CPI gets calculated differently in each country. In Europe, inflation is mainly driven by high energy prices, which also trickle down in the rest of the economy (food, fertilizer, etc.). In the US, the biggest driver is the real estate market where under pressure from fast rate hikes by the FED, the repayment of loans rose drastically. This also leads to increased rent prices. Central banks throughout the world continue to tighten monetary policy. The ECB has hiked the interest rate above 1%, to 1.25%, for the first time in 10 years this quarter. The Bank of England (BoE) is now at 2.25% and the FED at 3.25%. With interest rates rising so rapidly around the world, weaknesses in the economy are being tested. For example, a weak economic plan in the United Kingdom showed how fragile some parts of the economy are. The BoE intervened when a number of pension funds had to quickly liquidate gilts to raise cash. The BoE pledged to buy government bonds at up to $5 billion a day for the next 13 work days in an effort to restore the proper functioning of the market.

Wages continue to rise on the still very tight labor market (although this will ease as the economy weakens) and unemployment rates remain low historically. Low unemployment, coupled with government support through price ceilings and energy subsidies, keeps consumers going. This should reduce the likelihood of a deep recession. The central banks indicate that inflation will normalize through base effects and normalize the price of commodities. The sharply reduced chines demand will also help. The Chinese real estate market is struggling. Since Evergrande's default, China's growth engine (driven by real estate projects) appears to be sputtering. This, coupled with the 'zero-covid policy' in China, slows down an important global economy and reduces competition for raw materials. Europe, which is having a hard time due to the disconnection from Russian gas, is proving more resilient than many predicted. A mild winter coupled with the use of alternative energy sources could significantly reduce inflation. As a final inflationary factor, container prices and important other logistics costs have further decreased drastically compared to the second quarter.

On a geopolitical level, there also seems to be more turbulence ahead. The war between Russia and Ukraine has launched a successful counteroffensive. Russia threatens nuclear action in response. Tensions also linger between China and the US. The discussion about Taiwan also does not seem to be over yet. In Italy, just like in Sweden, a far-right party was recently elected. This could lead to tensions in the European Union. Of course, all this has an impact on the economy. For example, it seems more and more likely that companies will deglobalize in order to remove uncertainty and opt more for local supply chains. The course of events and the development of their results are less turbulent as earnings are still relatively in line with expectations earlier this year.

Currency and Money Markets

The second quarter of 2022 was also dominated by the dollar. The Fed's accelerated tightening policy has seen the dollar reach its all-time high and break parity with the euro, one US dollar now is worth more than one euro. Since the writing of our last bulletin, the EUR/USD rate has fallen further by -6,51%. In addition to the tightening policy, the strengthening of the dollar is due to the petrodollar status as well as the fact that the dollar is used as a global reserve currency. The JPY has remained relatively flat with the euro, but has seen a lot of volatility behind it. To the extent that the BoJ has intervened and actively supported the currency. The Sterling lost 1% against the Euro, and here again the BoE stepped in to support, as a weak economic program combined with selling pressure from pension funds on the GILT caused it to lose nearly 7% in value since August.

In the money market, the 10-year US yield is at 3.804% after peaking on September 27 at 3.9630%. The Dutch 10-year interest rate stood at 2.430%.

Stock Markets

Table 1.1 - General

	30-Sep-22	30-Jun-22 - 3 mnth	31-Mar-21 - 6 mnth	31-Dec-21 - 9 mnth	30-Sep-21 - 12 mnth
AEX	640,62	-2,82%	-11,54%	-19,71%	-17,01%
BEL20	3370,21	-8,47%	-18,96%	-21,81%	-18,96%
DAX	12114,36	-5,24%	-15,96%	-23,74%	-20,62%
EU50	3318,2	-3,96%	-14,97%	-22,80%	-18,03%
DJ	28725,51	-6,66%	-17,17%	-20,95%	-15,12%
SP500	3585,62	-5,28%	-20,85%	-24,77%	-16,76%
Nasdaq	10575,62	-4,11%	-25,63%	-32,40%	-26,81%
EUR/USD	0,9802	-6,51%	-11,43%	-13,26%	-15,35%
Euribor 3 months	1,17	1,37	1,63	1,75	1,72
NL govt 10 year	2,43	0,72	1,63	2,46	2,50

As can be seen in the table above, the third quarter was also very difficult on the stock market. What seemed to be a very promising comeback until mid-august, turned out to be nothing more than a short faded rally. As a result of negative inflation data and hugely hawkish central banks, selling pressure started again. Europe generally suffered less than America, despite all the noise around the energy markets.

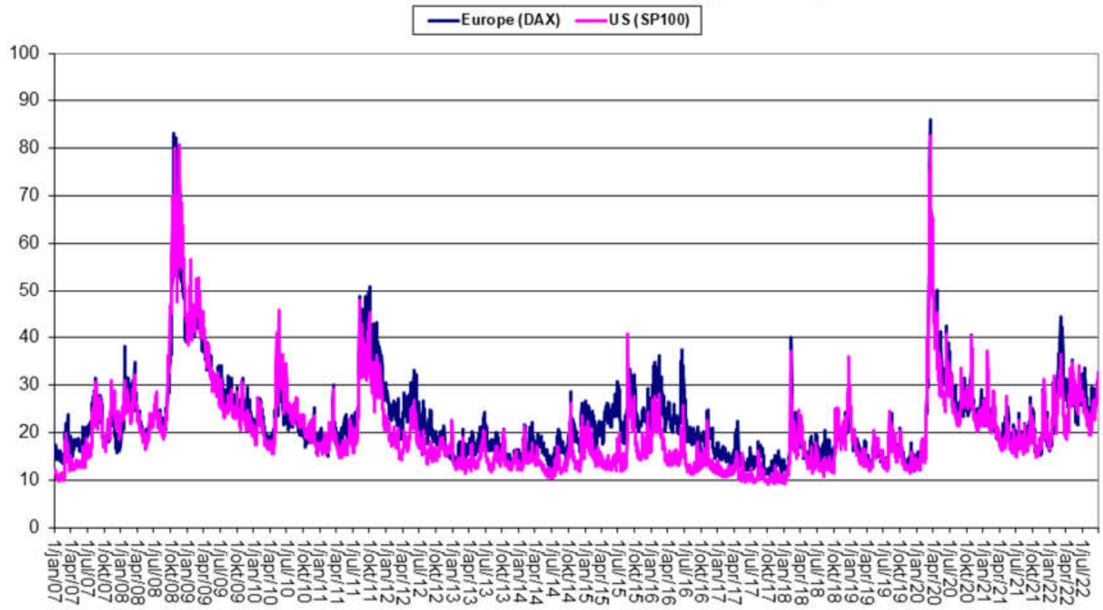
Other markets

Crypto markets remained highly volatile, while the extremely speculative 'NFT market' virtually dried up completely. Transaction volumes in the latter market have decreased by more than 90%. In the investment banking world, deal volume also declined dramatically. For example, there is a halving in the month of September in deal volume. This was accompanied by a number of large investment banks that announced that they wanted to reduce their headcount.

Implied Volatility

Also this quarter, the European volatility index VDAX remained above 20% throughout the quarter and appears to remain structurally high. Investors seem to agree on at least one thing, and that that there will be turbulence for a while.

Table 1.2 Development of the implied volatility jan 07 - sep 22



The Long Term

The heavily 'tech-loaded' AEX with also a heavy USD component has remained below the 200-day moving average, just like last quarter. Although it tried to break through. Relative valuations compared to forecasted earnings are becoming increasingly attractive.

Table 1.3 Long-term development AEX jan 03 - sep 22