

GENERAL INVESTMENT CLIMATE

The Economy

Has the top been reached? The last quarter of 2022 was marked by a potential spike in inflation. Since its peak in June 2022, US inflation has already fallen 2 percentage points to 7.1% in November. Economists expect this trend to continue slowly but steadily. Europe is still a bit behind but has already started a downward trend. The peak was 10.6% in October, but the November figure already came in at 10.1%. An accelerated decline should come in the first half of 2023 due to cooling energy prices (European gas (TTF) is already at a lower level than last year). In addition, the winter has been mild in Europe (except for a very cold week in December). We explained the importance of the weather in a previous bulletin. Gas reserves in Europe are declining at a slower than historical level, which lowers the pressure on gas prices. In addition, the Freeport LNG terminal in Texas will soon be back online, which is again positive news for the energy-intensive industry in Europe.

A potential pressure on inflation is the wage indexation that will be implemented in many countries in Europe. This may counteract the fall in inflation. Even Turkish inflation is showing a downward trend for the first time in a long time. Who would've figured? Contrary to consumer confidence, business confidence remained strong. The feared winter recession in Europe might be milder than initially expected.

Central banks around the world continue their tight policies, albeit at a slower pace. In the last FOMC meeting, the FED only raised rates by 50 basis points (bps). Europe and the BoE followed by also hiking 50 bps. The interest rates are respectively: 4.25-4.50%, 2.5-2.75%, and 3.5%. The Japanese central bank stubbornly continues to buy government bonds. But they also changed policy. The BoJ now allows long-term yields to fluctuate 50 bps vs the previous 25 bps. This can also be regarded as an interest rate increase.

On a geopolitical level, a lot has happened this quarter. For example, China abandoned its zero-covid policy for the first time since the outbreak of the COVID-19 pandemic. Investors are optimistic about China, but it is quite possible that the rapid spread of the corona virus will cause new mutations that in turn will result in lockdowns. With a more optimistic view, China may shake off the corona ghost and resume its export activities. That would also mean that China would export its own inflation of 1.6%, which again relieves Western supply chains. In the Russian vs Ukraine war, Ukraine seems to be gaining more confidence as they have pushed the Russians back a lot. President Zelensky visited the United States in December and Biden reconfirmed his support by promising Zelensky aid in the form of weapons and money. In the presidential election in Brazil, Bolsonaro was not re-elected (although it was close). Lula's less business-friendly approach seems to have won the crowd. In the UK, Liz Truss was replaced by Rishi Sunak after just 44 days in office. Sunak may be able to put the UK economy back on track. 2022 was a year of high inflation and turbulent stock markets. The turn of the year may bring a new start. In any case, there is again a 'shortage' of Champagne. Happy new year!

Currency and Money Markets

In the fourth quarter of 2022, the strength of the dollar was tested. For example, the Euro rose 9% against the dollar to 1.07. The Euro/dollar parity was broken again. The Japanese Yen also gained strength against the dollar and has already gained 15% to 131.12 since the October low. US 10-year Treasury yields also appear to have reached a temporary peak. In Europe, spreads of riskier government bonds against the Bund (German government bonds) narrowed, indicating calming markets. Due to the tightening central bank policy, the 3M Euribor interest rate has doubled since the previous quarter.

Stock Markets

Table 1.1 - General

	31-Dec-22	30-Sep-22 - 3 mnth	30-Jun-22 - 6 mnth	31-Mar-22 - 9 mnth	31-Dec-21 - 12 mnth
AEX	689,01	7,55%	4,52%	-4,86%	-13,65%
BEL20	3701,17	9,82%	0,52%	-11,00%	-14,13%
DAX	13923,59	14,93%	8,92%	-3,41%	-12,35%
EU50	3793,62	14,33%	9,81%	-2,79%	-11,74%
DJ	33147,25	15,39%	7,71%	-4,42%	-8,78%
SP500	3839,5	7,08%	1,43%	-15,25%	-19,44%
Nasdaq	10466,48	-1,03%	-5,10%	-26,40%	-33,10%
EUR/USD	1,07	9,16%	2,06%	-3,32%	-5,31%
Euribor 3 months	2,13	0,96	2,33	2,59	2,70
NL govt 10 year	2,90	0,48	1,20	2,10	2,93

The fourth quarter of 2022 concluded with a generally healthy rally. Only the Nasdaq, which mainly consists of technology and “growth stocks”, could not trade higher. The larger European equities traded much higher. The DAX with many basic industry companies, climbed 15%. Earlier this year, these were punished for their energy intensity. Many investments later (and lower energy prices) and investors are forward-looking again.

Other markets

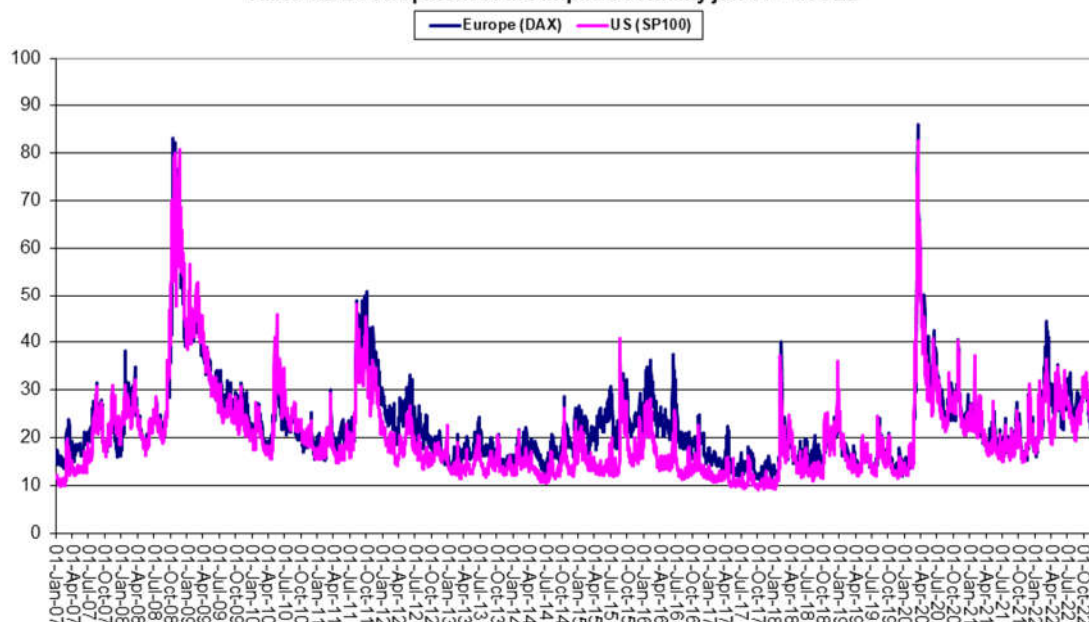
This quarter, the crypto market was again confronted with fraud. Under the leadership of Sam Bankman-Fried, FTX, a crypto exchange, went bankrupt due to highly obscure accounting and a complete lack of risk management. In addition, Genesis, a crypto asset manager, is also having problems meeting their crypto obligations.

In the private markets, deal activity at Private Equity funds has increased again. For example, Thoma Bravo (a fund specialized in software) is on a deal spree of \$24.3 billion. Venture Capital funds are also monitored, as many of these have not yet marked their assets to the market and may be showing artificially high returns.

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 - dec 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 - dec 22

