GENERAL INVESTMENT CLIMATE

The Economy

Shaky start! The first quarter of the year started somewhat uneventful. Economic data seemed to trend in the right direction with inflation cooling down or at least stabilizing across the board. European consumer price inflation clocked in at 6.9% year over year (YoY), with inflation in the Netherlands 'as low as' 4.5% and Belgium at 4.9% YoY as of March. Inflation in the Eurozone was mainly pushed upwards by the Baltics. In the United States, the inflation rate currently sits at 6% YoY. The deceleration in inflation is also visible in the central bankers' policy, the FED, ECB, BoE, and Bank of Australia all are decelerating their rate hikes, or pausing altogether. It still is too soon to declare victory on inflation as labor markets still remain very tight.

Central bankers are not only busy fighting inflation, but they are also trying to contain the capital markets in general. In early March a couple of events severely stressed the financial system. On the 10th of March, Silicon Valley Bank (SVB) succumbed to a bank run. During 2019-2022, SVB grew very fast seeing significant inflows of deposits and assets, most of which were used to buy long-duration treasury bonds. Due to the rise in inflation, central bankers deemed it necessary to hike interest rates at a very fast pace. This caused the treasury bonds to significantly drop in price. SVB had yet to mark to market its assets. Sophisticated investors continuously screening bank balance sheets noticed this and got scared that their deposits were no longer safe and withdrew them at a very rapid pace. This forced SVB to sell the bonds at a loss to increase liquidity. After the sale, SVB tried to raise capital through common and preferred stock but was unsuccessful. This led to a snowball effect, with more SVB customers withdrawing their money, for a total attempted withdrawal of $42 bln. The FDIC had to intervene and would later guarantee the deposits. After all was said and done First Citizen would acquire SVB for pennies on the dollar. On 19 March, Credit Suisse (which somehow manages to be involved in every negative banking event since 2008) got acquired by UBS after it saw its equity crash by over 30% since the beginning of the banking debacle.

In total, 3 banks would collapse (Silvergate bank, Signature bank and Silicon Valley bank), with plenty of other banks seeing their share prices significantly reduced. With the exception of Credit Suisse, European banks seemed to remain robust. It remains to be seen if these events remain isolated. Despite all that, investors kept their confidence in the Capital Markets as most indices did not sell off significantly.

In the energy space, OPEC+ producers announced oil production cuts of 1.16 mln barrels per day (bpd) in a surprising move. On top of that, Russia has extended its supply reduction leading This led to the price of oil rallying significantly higher. Dutch TTF gas continued to decline to its lowest point since before the invasion of Russia in Ukraine. As the Freeport terminal in Texas is back online, LNG shipments have recommenced easing global supply chains further.

Currency and Money Markets

In the first quarter of 2023, the EUR/USD remained stable. There has been a lot of noise around the Petrodollar standard as more and more oil deals are being done in other currencies. China has started buying Russian oil with the Chinese Yuan. In the credit market, yields continued to rise as central bankers kept hiking rates.

In the money market, the 10-year US yield is at 3.511%, dropping from 3.9% on the 9th of March. Due to the banking events discussed above, credit markets seem to not believe the 5-5.25% terminal rate the FED has published.

Stock Markets

Table 1.1 - General

	31-Mar-23	31-Dec-22 - 3 mnth	30-Sep-22 - 6 mnth	30-Jun-22 - 9 mnth	31-Mar-22 - 12 mnth
AEX	756,18	9,75%	18,04%	14,71%	4,42%
BEL20	3793,19	2,49%	12,55%	3,02%	-8,79%
DAX	15628,84	12,25%	29,01%	22,26%	8,42%
EU50	4315,05	13,74%	30,04%	24,90%	10,57%
DJ	33274,15	0,38%	15,83%	8,12%	-4,05%
SP500	4109,31	7,03%	14,61%	8,56%	-9,29%
Nasdaq	12221,91	16,77%	15,57%	10,82%	-14,05%
EUR/USD	1,08	0,93%	10,18%	3,01%	-2,41%
Euribor 3 months	3,04	0,91	1,87	3,24	3,50
NL govt 10 year	2,70	-0,20	0,27	0,99	1,90

As seen in the table above, the first quarter of 2023 was pretty strong. Markets generally trended upwards with the Euro Stoxx 50, despite all the challenges in Europe, being up 10.57% on a twelve-month basis. Noteworthy is that the recent rally in the Nasdaq was almost entirely due to the large tech companies, with companies like Nvidia and Meta up over 70% YTD. Generally not very healthy market behavior.

Other markets

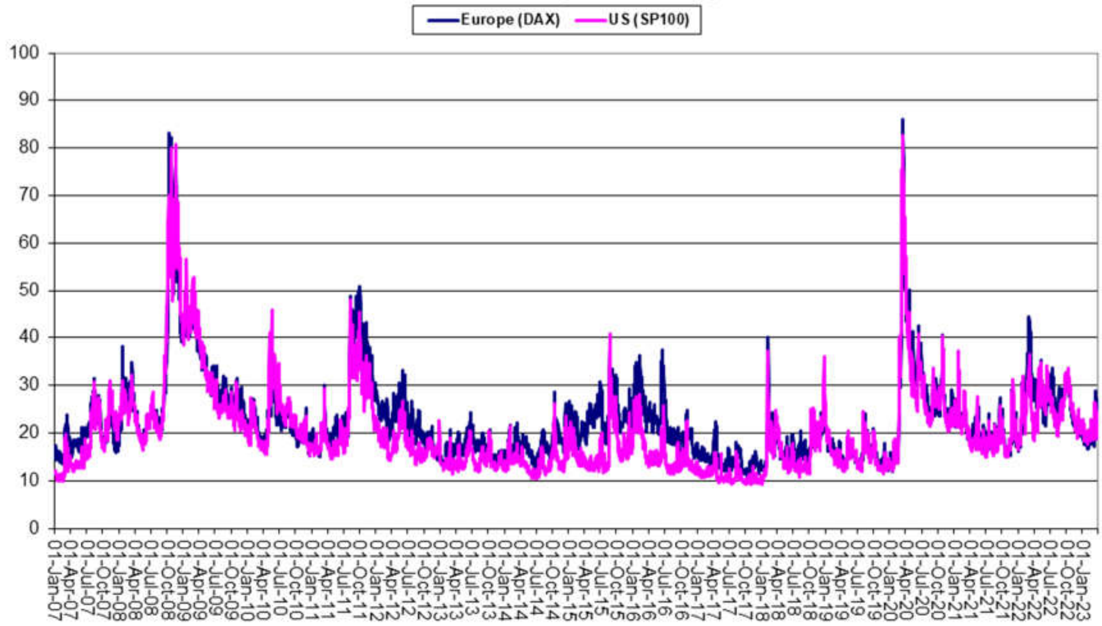
Crypto markets remained highly volatile, however, Bitcoin gained in value since the banking debacle in the middle of March and now trades around €25,500. Also gold continued its way up, rallying over 20% from the low of October.

Global merger and acquisition activity shrank to its lowest level in over a decade. M&A volumes slumped 48% to $575.1 bln as of March 30, compared to the $1.1 trillion in the same period the prior year. European deal volume declined by nearly 70% year over year.

Implied Volatility

Also this quarter, the European volatility index VDAX remained above 20% throughout the quarter, only dipping below a few times and appears to remain structurally high. Volatility nearly hit 30 during the two-week period of the banking debacle. The VIX and VDAX were tightly correlated with the VDAX only peaking higher during the banking debacle.

Table 1.2 Development of the implied volatility jan 07 - mrt 23



The Long Term

The heavily 'tech-loaded' AEX with also a heavy USD has pushed through its 200 day moving average. This could support the price of the AEX in the future.

Table 1.3 Long-term development AEX jan 03 - mrt 23