GENERAL INVESTMENT CLIMATE

The Economy

The second quarter of 2023 was again marked by central banks' continued battle to dampen persistently high levels of inflation. Although core inflation in the Western world has come down significantly since last year, it has recently shown signs of stabilizing at alarmingly high rates. This raises the question of whether interest rates will need to be raised sharply to slow down economic growth and balance demand with supply once again. This June saw the ECB hike its key interest rates by another 25 basis points to a main refinancing rate of 4.00%, while the Fed justified a pause in their hikes at a target range of between 5.00-5.25% by saying that the effect of earlier rate rises still need to fully make their way through the economy. However, Fed officials have recently signaled their shared belief that further tightening is needed to mitigate inflationary pressures. In Asia, China's central bank lowered its key medium-term lending rates to 2.65% as a response to the economy's post-Covid recovery losing momentum. Meanwhile, the Bank of Japan (BoJ) decided to keep its negative interest rates at -0.1% after appointing a new Governor in April. GDP in the euro area decreased by 0.1% year-on-year (YoY) in the first quarter, while it increased by 2% YoY in the US, and by 2.7% in Japan during that same period. In China, the GDP outlooks were cut after the economy's recovery showed signs of cooling down. Despite some continued consumer pessimism in the Western world in light of the high levels of inflation and rising interest rates, governments and companies continue to invest heavily in megatrends such as the energy transition.

Unfortunately, slowing down the economy and lowering demand is currently the preferred method to tackle inflation as boosting supply proves to be problematic. Historically low unemployment rates of 5.9% in the EU, and 3.7% in the US limit the possibility to get more people to work, and the labor market continues to be tight despite the extensive interest rate hikes and salary increases. Firms try to pass through and distribute their inflated costs in phases throughout the supply chains. This has caused German manufacturers to still have record order backlogs, but the pace of order intake has dropped in the second quarter. The majority of these companies have seen their order backlogs decline slightly or even sharply during the last three months. Nevertheless, the existing orders ensure sales and provide visibility for most of these companies for at least this year, and often well into 2024. After the reopening of the Chinese economy, domestic sales surged but exports contracted as the economic recovery faltered due to limited investment activity and declining exports due to a global economic slump. Chinese factory activity extended its decline in June, while the service sector also slowed down last month. This signals some lost momentum in the second quarter ahead of the release of Chinese GDP data in mid-July. In response, the government decided on an economic stimulus package that should support the ailing real estate sector and incentives for consumers to spend.

On the energy market, crude oil prices fell slightly during Q2 after a coalition of countries imposed an oil price cap in the first quarter of 2023. In response, Russia and Saudi Arabia communicated that they would curb oil supply again to try to boost prices. Recently, these countries have announced additional cuts to oil supply as a global economic slowdown hangs over the outlook for energy demand.

Currency and Money Markets
In the second quarter of 2023, the EUR/USD remained relatively stable. The USD/CNH was up around 7% YoY by the end of June due to contractions in Chinese exports in the second quarter. The USD/JPY was also up around 8% as the newly appointed Governor of the BoJ hinted on a potential overhaul of the loose monetary policy in Japan. Despite the interest rate hikes and forecasts, the 10-year Treasury yield only jumped to over 4% in early July after US private-sector jobs soared significantly above expectations in June.

Stock Markets

Table 1.1 - General

	30-Jun-23	31-Mar-23 - 3 mnth	31-Dec-22 - 6 mnth	30-Sep-22 - 9 mnth	30-Jun-22 - 12 mnth
AEX	773,94	2,35%	12,33%	20,81%	17,40%
BEL20	3543,18	-6,59%	-4,27%	5,13%	-3,77%
DAX	16147,9	3,32%	15,98%	33,30%	26,32%
EU50	4399,09	1,95%	15,96%	32,57%	27,33%
DJ	34407,42	3,41%	3,80%	19,78%	11,80%
SP500	4450,38	8,30%	15,91%	24,12%	17,57%
Nasdaq	13787,92	12,81%	31,73%	30,37%	25,02%
EUR/USD	1,0909	1,01%	1,95%	11,29%	4,05%
Euribor 3 months	3,58	0,54	1,45	2,40	3,77
NL govt 10 year	2,74	0,04	-0,16	0,31	1,03

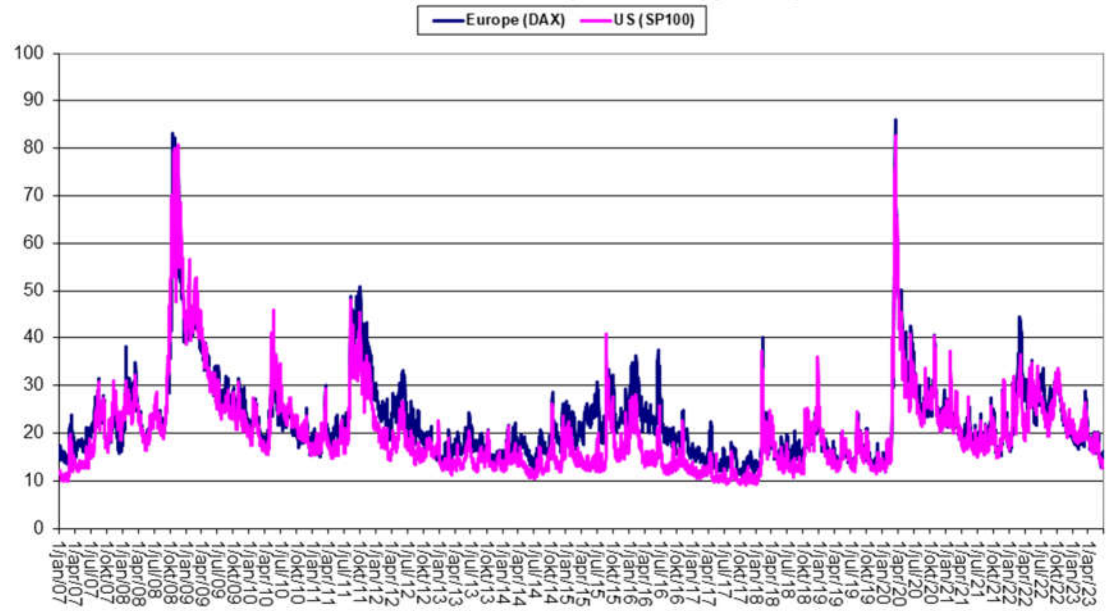
The Nasdaq index had a record performance and overproportionally benefited from the AI hype that skyrocketed stocks that are perceived to be related to this phenomenon. The Magnificent 7 (Nvidia, Tesla, Meta, Apple, Amazon, Microsoft, and Alphabet) together caused this increase through their heavy weighting in this market capitalization-weighted index. Meanwhile, most European indices also showed growth despite them falling behind due to the lower exposure to the AI hype.

Other markets
It seems that the banking crisis is already over, and US Congress has finally approved a deal to temporarily suspend the debt limit and avoid a default on debt repayments. It enables the government to borrow money until after the next presidential election in November 2024. New taxes for the rich were avoided, but there are some non-defense spending caps included in the deal. Global M&A activity fell 36% YoY in the second quarter as uncertainties about the debt ceiling and high-interest rates kept dealmakers on edge.

Implied Volatility
The volatility profile has continued its downward trend and is currently trading at around 15, which signals some investors' confidence in a return to pre-pandemic, lower levels of expected price volatility. However, history teaches us that when stock markets are carried by one or a few stocks or sectors, they are nearing their peak. Much

will depend on the summer earnings season to assess whether the large tech companies have succeeded in living up to their unusually high earnings expectations.

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



The Long Term

The tech-heavy AEX also benefitted from the AI boom with ASML gaining more than 20% YTD, and ASMI and BESI even gaining more. It has been trading above its 200-day moving average since the start of the year, although it is unclear whether this momentum can be held in light of the current macroeconomic developments.

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