GENERAL INVESTMENT CLIMATE

The Economy

While 2023 will go down as a year of economic uncertainty, the global economy proved to be more resilient than expected. After multiple interest rate hikes, headline inflation has come down, but core inflation still persists at level well-above the 2% inflation target that both the ECB and Fed uphold.

At the same time, there has already been speculation about possible rate cuts in 2024. Nevertheless, at its last meeting of 2023, both the ECB and Fed boards held interest rates steady at 4.50% and 5.25-5.5% respectively and affirmed their commitment to be diligent in its fight against inflation, making it unlikely that policy rates will return to levels below 3% in the near-term.

Consumer confidence in the United States and European Union remained stable during Q4 but still below its long-term average. However, according to the ECB, the tighter financing conditions are effective in dampening demand and helping to push down inflation, leading to lower economic growth forecasts for the upcoming years.

Beyond the near-term forecast, they expect the eurozone economy to pick up again from an average of 0.6% in 2023 to 0.8% in 2024 and 1.5% for both 2025 and 2026 as people benefit from higher real income due to lower inflation and growing wages.

The global economic expansion resumed slightly in November, but inventories came down further and the new order inflows only contributed to a mild growth in output. The growth in activity remained exclusive to the service sector, as manufacturing output contracted for the sixth consecutive month.

The purchasing managers' index for November, indicating the confidence of companies in near-term productivity, growth rose to 50.4 in November from 50.0 in October, but is still well below the long-term average of 53.2.

On the back of soft demand conditions and rising wages, employment growth stalled in December as there were several job cuts, particularly in the manufacturing sector. These effects were most severe in Europe, but at the same time production returned to slight growth in the US and China, and the UK also showed signs of stabilization.

Energy markets, although they remained volatile during 2023, eased in Q4 and are expected to ease further during 2024 because trade flows adapt to the global sanctions and output cuts. In light of the decreasing oil prices, the OPEC+ group of oil producing countries agreed to more voluntary outputs cuts in November.

The International Energy Agency raised its oil market growth forecasts in November for 2024 despite the slower economic growth in nearly all major economies. It stated that the market could shift into a surplus early into the next year after being kept in deficit throughout Q4 of 2023 by the voluntary cuts from Russia and Saudi Arabia that lasted until the end of December.

Currency and Money Markets

The EUR/USD exchange rate rose by over 4% in Q4 as the US trade deficit with the European Union increased. The Chinese renminbi weakened during Q4 as money left the economy, and the Chinese government sought to stabilize the currency by orchestrated buying by state banks and giving market guidance to bankers. This underlines the sluggish Chinese economy that characterized 2023.

The 10-year USD Treasury yield fell in Q4 after the strong surge during Q3, and it dropped below 4% again in December as markets anticipated potential changes in the Fed's interest rate policy. The 3-month Euribor rate remained relatively stable above the 6-month rate during the final quarter of the year, implying a continued inverted yield curve.

Stock Markets

Table 1.1 - General

	31-Dec-23	30-Sep-23 - 3 mnth	30-Jun-23 - 6 mnth	31-Mar-23 - 9 mnth	31-Dec-22 - 12 mnth
AEX	786,82	7,96%	1,66%	4,05%	14,20%
BEL20	3707,77	4,36%	4,65%	-2,25%	0,18%
DAX	16751,64	8,87%	3,74%	7,18%	20,31%
EU50	4521,44	8,31%	2,78%	4,78%	19,19%
DJ	37689,54	18,98%	9,54%	13,27%	13,70%
SP500	4769,83	17,66%	7,18%	16,07%	24,23%
Nasdaq	15011,35	20,12%	8,87%	22,82%	43,42%
EUR/USD	1,1039	4,41%	1,19%	2,21%	3,17%
Euribor 3 months	3,91	-0,04	0,33	0,87	1,78
NL govt 10 year	2,33	-0,86	-0,41	-0,37	-0,57

European and US stock markets showed significant positive developments after the temporary dip during Q3. Therefore, 2023 turned out to be a good year particularly for US stock markets, contrary to most analysts' expectations.

The European AEX and DAX indices also closed the year with convincing double-digit annual gains. The Bel20, in contrast, in the fourth quarter compensated its negative performance of the first three quarters of the year but only ended the year on the same level as the previous one.

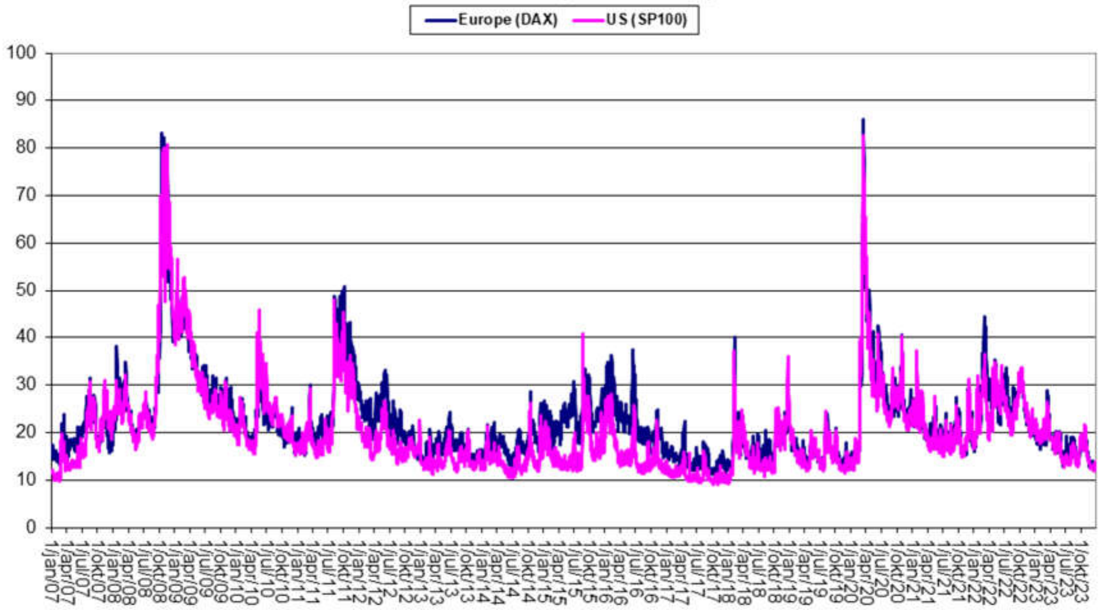
Other markets

During Q4, the cryptocurrencies once again gained momentum, with Bitcoin surging more than 50% and continuing its upward trend of 2023. One of the reasons for the optimism surrounding the cryptocurrency markets is the possibility that the SEC in the US will approve Bitcoin ETFs in the new year. Meanwhile, global M&A activity is showing signs of revival after hitting its lowest point in Q1 of 2023. According to Bain & Co., deal making in 2023 was especially down for venture capital and private equity firms on the back of rising interest rates and inflationary pressures that impacted both the number of deals and average deal size. However, due to the ongoing transitions in many market relating to ESG, digitalization, AI, etc., there is more optimism and confidence surrounding the 2024 outlook.

Implied Volatility

The international equity markets are ending the year on a more positive note after the sharp decrease in Q3. Still, there was much less divergence in stock movements between the US and Europe compared to earlier quarters, which resulted in the implied volatility trending lower towards the end of the year for both European and US stocks.

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



The Long Term

From a long term perspective, the development of the AEX index shows resilience after numerous shocks such as the semiconductor shortages, rising energy costs, cost of living crisis and subsequent rising wages, among others. The index is currently trading above its 200-day moving average, indicating a positive momentum going into the next year.

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