GENERAL INVESTMENT CLIMATE

The Economy

All eyes are currently focused on the development of underlying inflation, particularly the wage component, to gauge the timing of upcoming interest rate cuts. Inflation in the eurozone further declined in the first quarter, and the ECB's outlook was revised downward to 2.6% for 2024, 2.1% for 2025, and 2.0% for 2026. ECB President Lagarde emphasized the increasing upward pressure on price levels partly resulting from rising wages, which, in turn, are influenced by inflation expectations. This is consistent with the narrative of her American counterpart, Jerome Powell of the Fed, who maintained the belief that an interest rate cut can only happen based on supportive data. The US unemployment rate remained at a low level of 3.8% in February, indicating no rapid cooling of economic activity. Similarly, in the eurozone, the unemployment rate remained below the long-term average of 9%, at 6.4% in January.

Although a recession was avoided, economic growth in Europe faltered in the first quarter, leading the European Commission to downgrade its outlook to 0.8% for 2024. In the US, growth remains largely positive for now, but consumer confidence remains below the long-term average. Central bankers aim to avoid the mistakes of the past, such as those made by Arthur Burns in the 1970s, when premature interest rate cuts led to rapid inflation resurgence. At the same time, they also want to avoid the consequences of what his successor, Paul Volcker, did to defeat inflation. Volcker's prolonged higher interest rates led to the economy entering recession twice, with rapidly rising unemployment and weak stock markets.

Meanwhile, some market players argue that the current interest rates of 5.00-5.25% by the Fed and 4.50% by the ECB are too restrictive and are harming the economy. However, this seems to be a matter of perspective compared to the early 1980s when interest rates hovered around 20%. As long as unemployment does not suddenly rise sharply, the economy does not fall into recession, and economic productivity does not deteriorate, a short-term interest rate cut seems unlikely. The purchasing managers' index for the US stood at 50.3% in March, an improvement of 2.5% compared to the previous month, indicating expected economic growth. In Europe, this figure deteriorated by 40bps to 46.1%, indicating expected economic contraction.

Although European energy prices have returned to levels before the Russian invasion of Ukraine, oil prices have been rising since the beginning of the new year due to extended production cuts by OPEC+ countries and escalating tensions in the Middle East. With Russian oil refineries also becoming the target of Ukrainian drone attacks, it seems unlikely that oil prices will initiate a downward trend in the coming months.

Currency and Money Markets

In the first quarter of 2024, there are several milestones to celebrate. The Bank of Japan implemented its first interest rate hike from -0.1% to 0-0.1%, which many see as a significant symbolic step to reverse the long-standing deflationary trend of the Japanese yen. The other major Asian currency, the yuan, weakened further against the US dollar during the first quarter, amid rumors suggesting that this is orchestrated by the Chinese government to improve its trade balance and stimulate the economy. In Europe, the EUR also experienced a slight decline against the USD.

Stock Markets

Table 1.1 - General

	31-Mar-24	31-Dec-23 - 3 mnth	30-Sep-23 - 6 mnth	30-Jun-23 - 9 mnth	31-Mar-23 - 12 mnth
AEX	881,78	12,07%	20,99%	13,93%	16,61%
BEL20	3845,63	3,72%	8,24%	8,54%	1,38%
DAX	18492,49	10,39%	20,19%	14,52%	18,32%
EU50	5083,42	12,43%	21,77%	15,56%	17,81%
DJ	39807,37	5,62%	25,67%	15,69%	19,63%
SP500	5254,35	10,16%	29,62%	18,07%	27,86%
Nasdaq	16379,46	9,11%	31,07%	18,80%	34,02%
EUR/USD	1,079	-2,26%	2,05%	-1,09%	-0,09%
Euribor 3 months	3,89	-0,02	-0,06	0,32	0,85
NL govt 10 year	2,61	0,27	-0,58	-0,14	-0,10

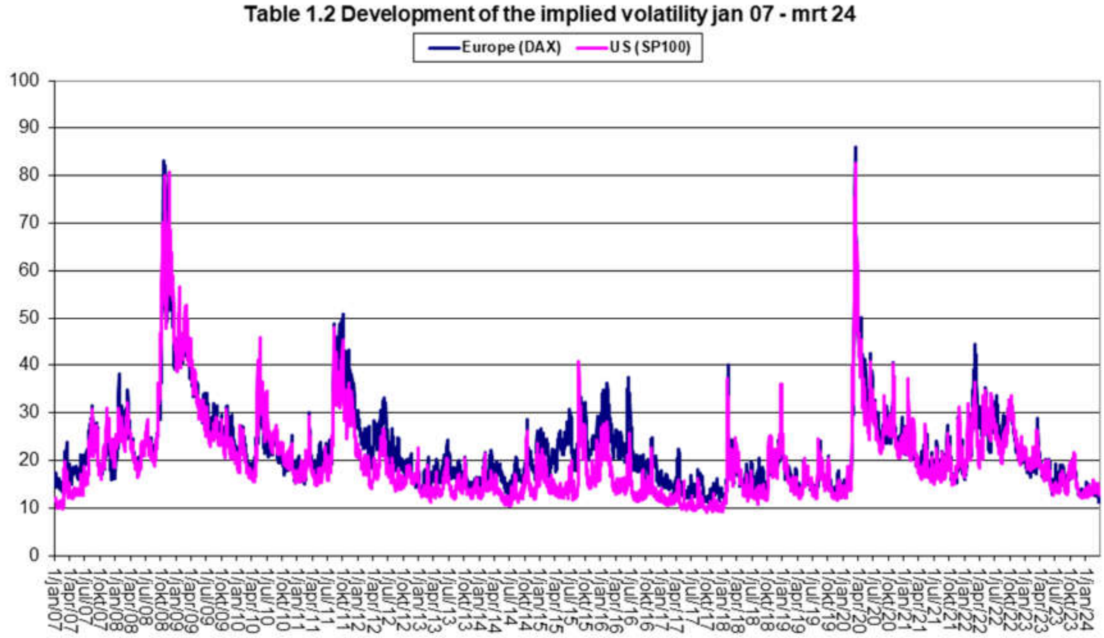
Key indices continued their positive trajectory during the first quarter, reaching new record highs, including the AEX, DAX, Dow Jones, and S&P500. However, only the Bel20 and Nasdaq failed to break records. Nevertheless, the rise in indices may present a distorted picture. The increase in indices was primarily driven by a limited number of larger stocks, often from the tech sector, and was not supported by the broader market. On average, stock prices barely changed in the first quarter. The publication of annual reports from companies reveals that many are currently relying on long order backlogs while their incoming orders decline.

Other markets

Global M&A activity has rebounded in the first quarter of 2024 after a challenging 2023, characterized by uncertainty surrounding expected inflation, rising interest rates, and regulations. Now, it seems that the tide has turned, as several major acquisitions have led to an increase in the global volume by more than 30%, despite the number of deals decreasing by more than 31%. Cryptocurrencies also experienced a dynamic quarter, with the price of Bitcoin reaching a new all-time high of almost $74,000 in March. Additionally, commodity prices have risen again after a declining trend that began once the logistical problems of 2022 were resolved, with gold even reaching a new record high of over €67,000 per kilogram.

Implied Volatility

Once again, the implied volatility of European and American markets diverged in the past quarter, with the latter at a higher level due to some surprising results. However, the declining trend in the first quarter indicates that we are generally in a fairly sideways market.



The Long Term

The AEX set a new record, surpassing the previous record from 2021 by more than 7.5%. This was primarily driven by several popular stocks with global operations. However, the significance of the Dutch economy for the AEX index has declined substantially in recent years to only 10-20%, rendering the AEX less indicative of developments in the Netherlands. Compared to a 200-day moving average, the AEX is currently in a strongly overbought momentum.