

## GENERAL INVESTMENT CLIMATE

### **The Economy**

The second quarter of 2016 started off relatively stable compared to the first three months. A better than expected global economic performance, a further recovery in oil prices and additional monetary stimulus in the Euro Area supported the valuations of risky assets. However, this quarter came with a sting in the tail as in the beginning of June uncertainty came over the market due to the impending Brexit vote. Global stock markets took a big hit when it became clear that a Brexit was a viable option and risk adverse investors started selling off their stakes. On top of that the German 10-year sovereign bond yield turned negative for the first time in history. Nevertheless, the murder of Jo Cox renewed the investor's confidence in the "remain"-side and sparked a temporary recovery.

On the 24<sup>th</sup> of June the outcome of the referendum in the United Kingdom surprised many with the majority vote to leave the EU, dealing a major blow to the markets. Among the victims; airlines, travel agencies, homebuilders and banks were hit the hardest. Moreover, the British pound tumbled to a three-decade low against the US dollar and the euro depreciated against the greenback to March levels. Consequently, the Brexit bloodbath triggered a flight to safe-haven assets like gold and government bonds, causing the yield on European 10-year-bonds to drop significantly. German debt, in particular, continued to be in high demand.

Although crude oil prices initially took a hit out of fear for a global economic slowdown, the overall effect remained limited. After the vote to leave, prices dropped from \$50.30 a barrel to \$46 but by the end of the month recovered to the psychologically important threshold of \$50, partly supported by a looming strike in Norway. Nevertheless, oil prices will continue to be volatile as long as the exact consequences of the Brexit aren't entirely clear.

Aside from the economic repercussions the UK now also faces political turmoil as it was left leaderless after the resignation of Prime Minister Cameron. On top of that there's the coup attempt against the leader of the Labour Party and Brexit protagonists Farage and Johnson fleeing the scene.

After the Brexit result, Bank of England governor Mark Carney followed up on promises to markets to provide liquidity by injecting £3.1bn into banks. The expected interest rate cut is being postponed for the time being as the implications of the Brexit on the UK economy are not completely clear. However, it was strongly suggested that official borrowing costs could be cut further from their all-time low of 0.5%, perhaps as soon as July. The ECB is adopting the same "wait and see"-approach but it is clear that the likelihood of an extension of the bank's asset purchase program has increased.

The Euro Area's real GDP increased by 0.5% (quarter on quarter) after an increase of 0.3% in the last quarter of 2015. Growth continues to be supported by domestic demand but is hampered by weak exports. Draghi stated that the latest data points to ongoing growth, though possibly at a lower rate than in the first quarter. Moreover the ECB expects the economic recovery to continue at a "moderate but steady pace". The unemployment rate in the US declined from 5% in April by 0.3 p.p. to 4.7% in May 2016, beating market expectations of 4.9%. It was the lowest reading since

November 2007. Meanwhile in the Euro Area, the unemployment rate continues to drop – be it at a very slow pace – from 10.2% to 10.1%.

### Currency and money markets

Sterling sank 11 percent in value to its weakest point since 1985 after Britain voted to leave the European Union, triggering a global rush into the traditional security of the yen and the Swiss franc. Furthermore, the pound slumped to its weakest level in more than two years compared to the euro, losing more than 7%. However, the euro didn't come out of the Brexit aftermath unscathed either as it dropped from \$1.13 to \$1.10. Despite its recovery to \$1.11 by the end of the month, many believe the euro isn't out of the woods yet. The Brexit could lead to the return of Franco-German dominance in the EU, triggering further Euroscepticism, with populists pushing for their country's own exit from the EU. This could continue to weigh on the euro in the months to come.

### Stock markets

**Table 1.1 - General**

	30-jun-16	31-mrt-16 - 3 mth	31-dec-15 - 6 mth	30-sep-15 - 9 mth	30-jun-15 - 12 mth
AEX	438,85	-0,29%	-0,67%	4,21%	-7,14%
BEL20	3345,63	-0,81%	-9,58%	0,03%	-6,41%
DAX	9680,09	-2,86%	-9,89%	0,20%	-11,56%
EU50	2864,74	-4,67%	-12,33%	-7,61%	-16,34%
DJ	17929,99	1,38%	2,90%	10,10%	1,76%
SP500	2098,86	1,90%	2,69%	9,31%	1,73%
Nasdaq	4842,67	-0,56%	-3,29%	4,82%	-2,89%
EUR/USD	1,1103	-2,43%	2,28%	-0,66%	-0,39%
Euribor 3 months	-0,2860	-0,0420	-0,1550	-0,2460	-0,2720
NL govt 10 year	0,0860	-0,2720	-0,7070	-0,6950	-0,9490

The Euro Stoxx 50 experienced another bad quarter despite its promising start in April. Post-Brexit the index dropped as low as 2697.44 due to the market's panic reaction but recovered to 2864.74 at the end of the quarter. The BEL20 managed to regain a fair share of its Brexit losses as stocks which have next to no exposure to the United Kingdom crawled back to their rightful positions. Overall it lost less of its value than the DAX the past three months, which lost 2.86% compared to last quarter. Again the AEX shows the best performance of all European indices, sliding only 0.29%.

The U.S. stock markets suffered their worst drop in 10 months due to the Brexit, with the Dow Jones and the S&P500 falling by more than 3% in one day. The losses pushed both stock measures back into negative territory for 2016. However, U.S. stock markets bounced back by the end of the month as general consensus started to change to scepticism that the U.K. will ever leave the EU and, if it does, that the global fallout can be largely contained. Meanwhile the Japanese yen appreciated significantly, causing the Nikkei index to fall dropping almost 8%.

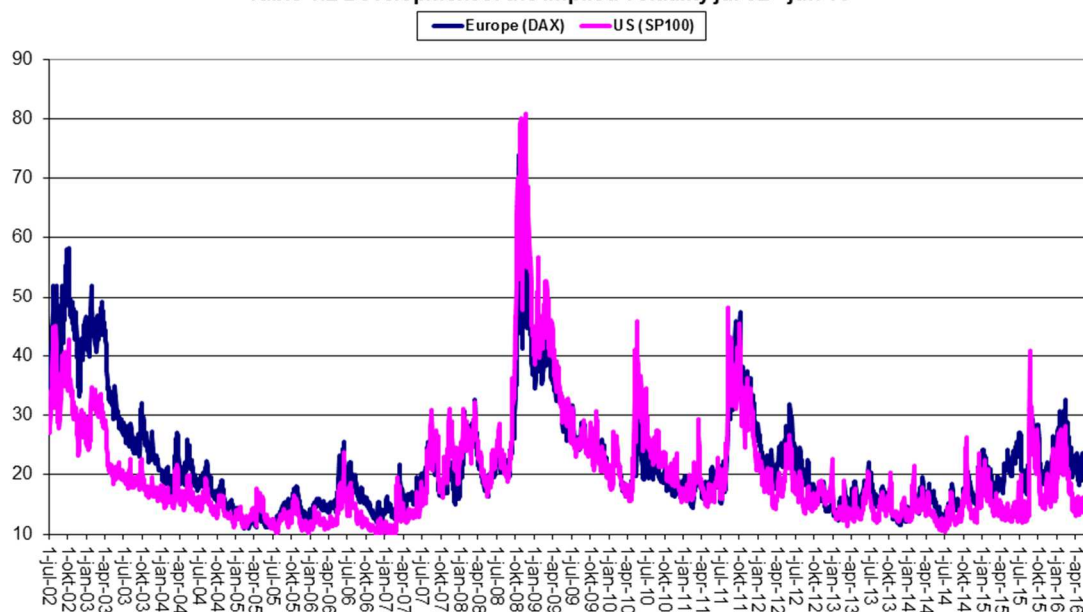
Overall, the same story can be told for all these indices: first the major Brexit blowback and then recovery as market overreactions were corrected. Much of the

rebound can also be explained by the soothing words coming from the central banks, causing investors' expectations about further monetary stimuli to grow.

### Implied Volatility

Both the European and the American stock markets started off under blue skies, causing volatility to remain relatively low in the first half of the quarter. June the “Brexit storm” arose and volatility in both stock markets soared. However, post-Brexit volatility already showed a downward trend towards the annual average.

Table 1.2 Development of the implied volatility jul 02 - jun 16



### The long term

The AEX went through the same developments as the other European indices, meaning they peaked three times roughly around half April, the end of May and of course just before the Brexit result. By the end of June roughly 5.5% of the lost 8.5% was recovered but the AEX didn't manage to rise above the moving average again.

Table 1.3 Long-term development AEX jan 03 - jun 16

