GENERAL INVESTMENT CLIMATE

The Economy

The year 2016 ended with a quarter with more than one occurrence that could be labeled “historical”. For the first time since 2008 OPEC decided to decrease its oil production aiming to boost crude prices. Many were skeptical about the plans made in Algiers at the end of the third quarter but the production cut decided on the 30th of November even exceeded the oil bulls’ expectations. Surprisingly non-OPEC country Russia also decided to join the production cut. Oil output will be reduced by about 1.2 million barrels a day to an output of 32.5 million per day by the start of 2017. The Saudis accepted Iran – which openly contested the calculations involved with the plans made in September – as a special case, even allowing them to raise their production to about 3.9 million bpd. This news caused the (Brent) oil prices to increase almost 9%, settling above the important $50 per barrel threshold. Further development suggests $50 per barrel is here to stay now, which bodes well for the oil & gas industry where production costs have come down considerably over the years.

2016 was without doubt one of the more turbulent years on the political front. In June there was Brexit and on the 8th of November the American voters elected the most controversial Donald Trump as the new president of the United States. US stock markets reacted surprisingly positive and rallied for the remainder of the quarter. Some other indexes, like the Japanese Nikkei, took a big hit but recovered at surprising speed during the following days. Analysts attributed this swift recovery to the mild tone of Trump’s acceptance speech and the many industries that could benefit from his presidency. Some even talk about a “Trump-effect” but how this will pan out is anyone’s guess.

In Italy the constitutional reform put forward by Prime Minister Renzi was rejected by the voters with 59.11%, prompting Renzi’s resignation. On the bright side the banking crisis seems to be resolved for now since the EU commission authorized state support.

Meanwhile, there were also some interesting developments on the monetary policy scene. The first announcement by the ECB on the 20th of October was the anticipated status quo. Even though the low interest rates were crippling the banking sector, Draghi insisted the ECB-policy was working by pointing at the increasing inflation. On the 8th of December the ECB decided to extend its asset purchase scheme by an extra nine months. However, they did lower the purchased volume from €80 billion to €60 billion a month starting from April 2017. On top of that the ECB will now consider buying bonds with a yield below its deposit rate (the interest rates charged on bank deposits at the ECB), which is -0.4%. Draghi stated that Europe’s economy requires additional stimulus to help drive inflation and growth up. Note that this decision did not receive unanimous backing, which could imply the ECB is nearing the limits of its monetary measures. Nevertheless, Draghi insisted they could boost the pace of asset purchases if circumstances demanded or run the program into 2018.

On the 14th of December their American counterpart finally raised rates for the first time in 2016, from 0.25-0.5% to 0.5-0.75%. This didn’t come as a surprise given the improved labor market and increased inflation. Moreover, the Fed conveyed its intention to raise rates three times in 2017, which was more than expected. This can be explained by the unexpected election of Trump since he plans to boost growth with tax cuts and investments in infrastructure. His intended policy increased the inflation expectations to such an extent the Fed deemed it necessary to intervene.

A final word on the macroeconomic environment: the Euro Area's economic expansion continued at the same pace as last quarter with annualized GDP growth of 0.3% quarter on quarter. The US economy advanced an annualized 3.5%, up from 1.4% growth in the previous period. It is the highest growth rate in two years as personal consumption, investment in structures and intellectual property products and government expenditure rose faster than anticipated. Moreover, consumer prices in the Euro Area remain on the rise with an increase of 0.6% year-over-year in November following 0.5% in the month before. It was the highest inflation rate since April 2014, driven by a higher price level of restaurants and cafés, housing rents and tobacco. Meanwhile in the US inflation went up 1.7% after 1.6% in October. Finally, the unemployment rate in the Euro Area declined slightly from 9.9% in September to 9.8% in October. In the US the jobless rate decreased even further from 4.9% to 4.6%.

Currency and money markets

The modest euro development was no match for the strong USD rally after Trump's election victory. On top of that, the ECB's decision on the 8th of December clearly favored the equity markets over strong euro development, smothering its temporary recovery against the USD. The euro first dropped from roughly $1.10 to about $1.06 and later depreciated further to $1.04. Sterling had a better quarter. Even though it couldn't hold a candle to the exceptionally strong USD, it did gain ground on the euro. Post-Brexit, the British economy turned out to be sturdier than expected, resulting in the appreciation of the pound from circa €1.15 to €1.17.

Stock markets

Table 1.1 - General

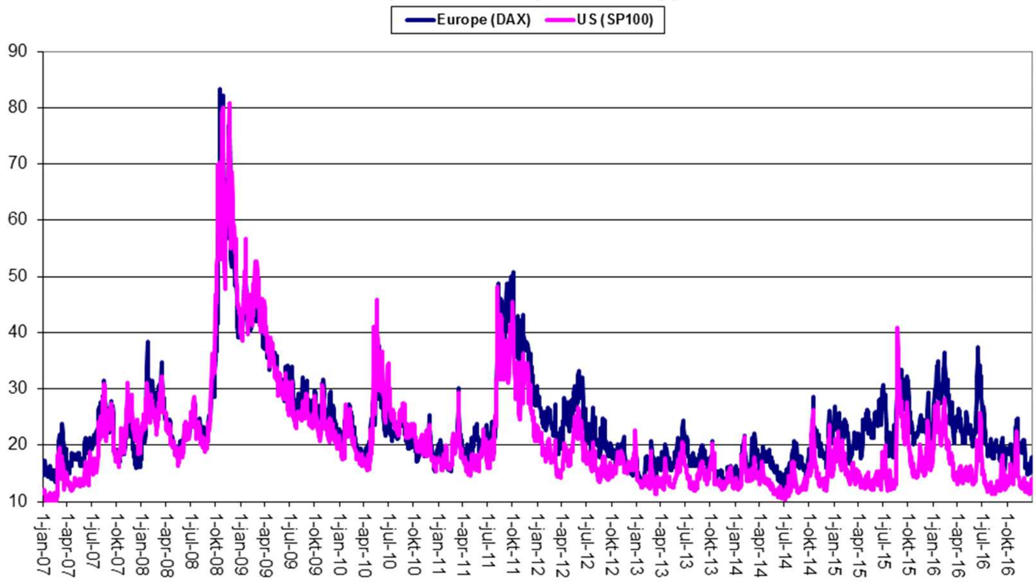
	31-dec-16	30-sep-16 - 3 mnd	30-jun-16 - 6 mnd	31-mrt-16 - 9 mnd	31-dec-15 - 12 mnd
AEX	483,17	6,82%	10,10%	9,78%	9,36%
BEL20	3606,36	1,42%	7,79%	6,92%	-2,54%
DAX	11481,06	9,23%	18,60%	15,21%	6,87%
EU50	3290,52	9,60%	14,86%	9,50%	0,70%
DJ	19762,60	7,94%	10,22%	11,75%	13,42%
SP500	2238,83	3,25%	6,67%	8,69%	9,54%
Nasdaq	5383,12	1,34%	11,16%	10,54%	7,50%
EUR/USD	1,0520	-6,41%	-5,25%	-7,56%	-3,10%
Euribor 3 months	-0,3190	-0,0180	-0,0330	-0,0750	-0,1880
NL govt 10 year	0,3570	0,3530	0,2710	-0,0010	-0,4360

Even though they started off sluggishly, all stock markets finished strongly at the end of the quarter. For the American equity markets it was of course the unexpected Trump victory which caused it to slingshot. Surprisingly, it initially had little to no effect on the European stock markets, which rallied only after the result of the Italian referendum on the 5th of December. After that the only way to go was up for the European indices, with the exception of the Italian FTSE MIB of course. The most apparent reason for this rising trend would be a mix of the beneficial ECB decision, the solid macroeconomic fundamentals and a hint of Trump-related optimism.

Implied Volatility

Even though “Trump” and “uncertainty” are often mentioned in one breath, the development of the implied volatility was rather tame. Despite the Italian constitutional referendum there was next to no change on the European front and after the outcome of the presidential election, short-term volatility in the US even declined to its lowest level of 2016.

Table 1.2 Development of the implied volatility jan 07 - dec 16



The long term

After a short dip below the moving average, the AEX started an impressive hike that would go on until the 16th of December. The Dutch index’s strong performance resulted in the biggest gap between itself and the moving average since June 2015. However this performance reflects mainly the weight of the energy related shares.

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