

## **GENERAL INVESTMENT CLIMATE**

### **The Economy**

After a bullish first quarter we witnessed a more cautious start to the second quarter. Investors adopted a wait-and-see attitude due to the upcoming French presidential elections. After the Brexit and equally surprising election victory by Donald Trump the markets were afraid of a far-right victory. This would likely have led to a “Frexit” and further destabilization of the European Union. However, on the 7<sup>th</sup> of May Emmanuel Macron won decisively with a 66.1% majority and the bull-trend was set to continue. The second quarter did mark the comeback of oil-related worries as OPEC and allies decided to extend the production cut for only nine months. The markets reacted disappointed and crude prices dipped below \$50 per barrel once again.

Despite the beneficial outcome in France, Europe still had its fair share of problems. On the 15<sup>th</sup> of June, Greece had to be bailed out again by the European emergency fund ESM. The struggling country received another €8,5 billion to make it through the summer and was promised special treatment regarding the repayment of its European loans. In periods of faltering economic growth the nation must only pay rent on the outstanding debt but capital repayments could be postponed. At the end of this year or the beginning of 2018 Greece will be allowed to borrow again on the financial markets.

Meanwhile the South-European banking industry remained turbulent. The Italian government had to step in to save two Venetian banks: Banca Popolare di Vicenza and Veneto Banca. A total of €5 billion was injected into Intesa Sanpaolo to help it take over the viable business of its two Venetian peers. On top of that the Italian government committed to cover up to €12 billion in losses that might arise when dissolving the remaining bad bank components. Only a few weeks before the Spanish Banco Popular had to be acquired by Santander to prevent bankruptcy. This proves again the necessity of the new financial hedges installed by the EU after the financial crisis in 2008 as the consequences could have been far worse.

Throughout the second quarter the ECB held its reference rate steady at zero percent. However, President Mario Draghi made clear that downside risks have diminished and refrained from any reference to a future rate cut. Quantitative easing continued as planned and will be extended should the need for it arise. The status quo came as little surprise so the impact on the markets was limited. Despite clear signs of an improving European economy, market watchers do not anticipate a rate increase in the near term.

Despite missing its inflation goal the Fed opted for another rate hike, the third in only six months. The lower inflation was attributed to one-time price decreases of products like, for example, prescription drugs. Therefore the reference rate range was increased another 25 basis points to 1% - 1.25%. The American Central Bank plans to increase its rate once again this year and wants to increase it three times more in 2018.

A final word on macroeconomics: The Eurozone economy expanded 0.6% quarter on quarter, an acceleration compared to last quarters' 0.4%. Growth picked up in Germany, Spain and Italy but slowed in France. The US economy expanded an

annualized 1.4% quarter on quarter, further down from last period's 2.1%. Inflation in the Euro Area came down this quarter, from 1.9% in April to 1.3% in June. This development can mainly be attributed to oil prices losing ground again. Naturally this also affected inflation in the US, causing it to drop from 2.2% to 1.9%. Finally, the unemployment rate in the Euro Area decreased slightly again from 9.4% to 9.3%. Remarkably, the US jobless rate dropped even lower, reaching its lowest level since May 2001 with 4.3%.

### Currency and money markets

After a shaky start in anticipation of the French election results, it's safe to say the euro is back. The currency appreciated from 1.07 to 1.14 USD, recovering all of its lost value since the Brexit. After the pro-European outcome of the Dutch elections, the EU passed yet another stress test, reinforcing (or restoring?) the markets' belief in a future of European stability. The euro's recovery against the USD was also strengthened by growing doubts as to the Republican administration's ability to successfully carry out their promised economic reforms. Sterling also managed to recover against the USD, appreciating from 1.25 to 1.30 USD. However, it was no match for the strong euro, dropping from €1.18 to €1.13.

### Stock markets

**Table 1.1 - General**

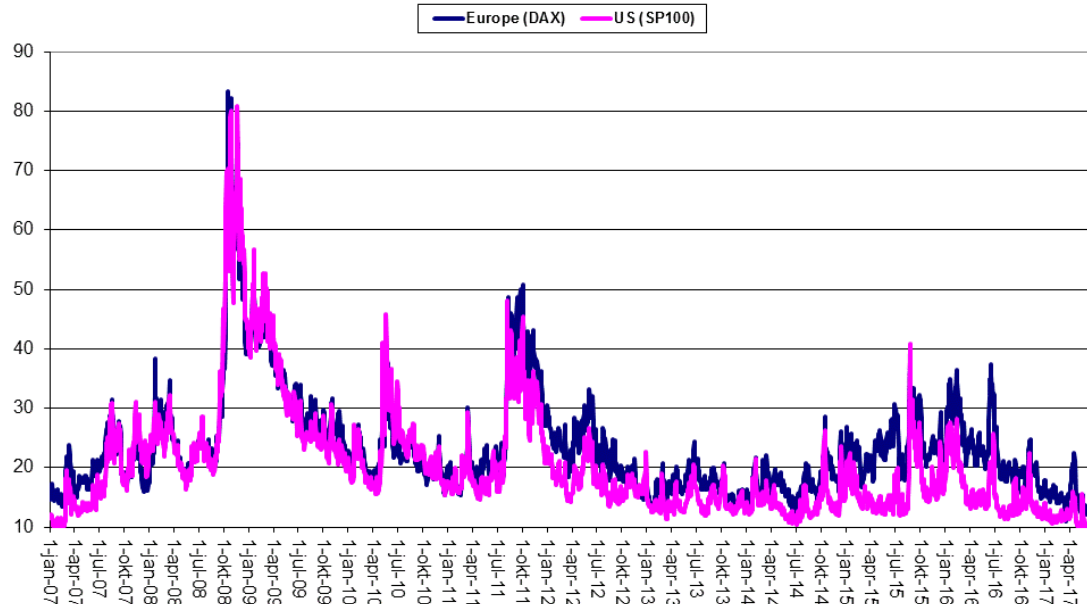
	30-jun-17	31-mrt-17 - 3 mnd	31-dec-16 - 6 mnd	30-sep-16 - 9 mnd	30-jun-16 - 12 mnd
AEX	507,15	-1,82%	4,96%	12,12%	15,56%
BEL20	3793,62	-0,61%	5,19%	6,68%	13,39%
DAX	12325,12	0,10%	7,35%	17,26%	27,32%
EU50	3441,88	-1,69%	4,60%	14,64%	20,15%
DJ	21349,63	3,32%	8,03%	16,61%	19,07%
SP500	2423,41	2,57%	8,24%	11,77%	15,46%
Nasdaq	6140,42	3,87%	14,07%	15,60%	26,80%
EUR/USD	1,1426	7,26%	8,61%	1,65%	2,91%
Euribor 3 months	-0,3310	-0,0020	-0,0120	-0,0300	-0,0450
NL govt 10 year	0,6560	0,0780	0,2990	0,6520	0,5700

After a hesitant start both American and European stock markets regained their footing and continued their strong growth trajectory. However, uneasiness hung over the market after the New York Times reported about Trump's meddling with the investigation of then-director of the FBI, James Comey. Suddenly everyone starting talking about impeachment again and the prospect of Trump's pro-growth plans, involving generous tax cuts and massive infrastructure investments, seemed farther away than ever. Moreover, Mario Draghi's remarks suggesting the ECB might be winding down its balance sheet, didn't help to improve the mood on the stock markets. In the end, despite the strong start, most European stock markets ended up finishing in the red. On the other side of the Atlantic, not even the Tech hiccup could keep the indexes from growing. Finally, right at the end of the quarter, the first concerns regarding normalization of the Automotive Industry also started affecting the markets.

## Implied Volatility

Unsurprisingly, the anticipation of the French election results substantially increased the volatility in the markets, causing it to peak by the end of April. Not long after that, President Trump's antics were yet again the cause for concern. Remarkably enough the American markets had less of a hard time digesting this than the European markets.

Table 1.2 Development of the implied volatility jan 07 - jun 17



## The long term

The AEX started out strong again but lost its momentum in the last month of the quarter. This can be attributed to a combination of the disappointing outcome of the OPEC discussions and Trump worries. On top of that the rumors of increasing competition in the American food retail market led to a substantial sell-off of Ahold Delhaize, dragging the AEX down with it.

Table 1.3 Long-term development AEX jan 03 - jun 17

