

GENERAL INVESTMENT CLIMATE

The Economy

The third quarter is typically more quiet due to the summer months and this year was no different. During this quiet period we witnessed no real changes in the European and American stock markets but the quarter did have an exceptionally strong closing month. Much like the previous quarter the political front was much more turbulent with rising tensions between US president Trump and North Korea's supreme leader Kim Jong-un. Trump's "fire and fury" caused some unrest among investors in the short term but was quickly digested and filed under "Trump rhetoric". It's also entirely possible that the investing community simply does not know what to make of their childish Twitter banter and chooses to ignore it. Meanwhile, the credibility of Trump's promises of economic stimulus through tax reform and infrastructure investments eroded further as the president was continuously thwarted in his attempts to reform. Back in Europe it was Germany's turn for elections. These weren't as highly anticipated by the markets as other European elections since the polls predicted a convincing victory for Merkel. Investors bet on business as usual for Germany and thus continuing stability of the European Union. On the 24th of September the markets were proven right as Merkel's CDU received 32.9% of votes, seconded by SPD with only 20.5%. However, Merkel's victory tasted bittersweet as populist far-right party AfD gained almost 8% compared to last election, while her party lost more than 8%.

Furthermore, oil prices were exceptionally strong in this past quarter, posting gains of as much as 20%. Price gains were supported by anticipated demand from US refiners resuming operations after shutdowns due to hurricane Harvey. However, oil prices still don't seem to warrant a worldwide recovery of the oil industry as only North American producers are resuming drilling activities. OPEC countries are worried the rising number of rigs in the US might impede a further oil price recovery.

On the Central Banking side "managing expectations" was again the name of the game. The exceptionally strong euro development made Draghi's job a lot tougher this time around. The 20th of July the ECB president first calmed down the markets by stating there was no increase in underlying inflation so there would be no changes to the asset purchase program and the interest rate. However, his dovish message was quickly drowned out when he mentioned the build-down schedule of the quantitative easing program would be discussed in September. This triggered speculation on interest rate reversal causing the euro to appreciate further. The strong euro development clearly worried the ECB as on the 7th of September they announced the monetary policy would be continued out of fear of 'overshooting' the exchange rate.

In the US Yellen was also walking on eggshells. During her congressional testimony she emphasized the considerable uncertainty surrounding the economic outlook. She also made clear that we shouldn't expect the rates of before the financial crisis to come back any time soon. Finally, Yellen conceded that the Fed still likely will need to implement "gradual rate hikes" over "the next few years". On the 20th of September the Fed announced it will begin to roll off its \$4.5 trillion balance sheet in October. However, it made no changes to its benchmark interest rate and officials projected one fewer rate hike than initially forecast by 2019.

On to macroeconomics: The Euro Area GDP grew 0.6% quarter on quarter, on par with last quarter. GDP growth picked up in Spain; was unchanged in France and Italy; and slowed in Germany. The US economy expanded an annualized 3.1% quarter on quarter, a strong recovery after last quarter's 1.4% driven by private inventory investment. Inflation in the Euro Area rose slightly this quarter, from 1.3% in June to 1.5% in July. This development can mainly be attributed to stronger oil prices and increased food prices. In the US we saw inflation drop at first but recover to its previous level of 1.9%. Finally, the unemployment rate in the Euro Area decreased slightly again from 9.3% to 9.2%. After a slight increase the US jobless rate dropped to its lowest level since February 2001 with 4.2%.

Currency and money markets

The euro had a very strong run this third quarter and appreciated so much compared to the USD that it started weighing on export-oriented economies like Germany. It rose from 1.14 all the way up to 1.20 but fell back slightly to 1.18 after the ECB disappointed the most impatient tapering speculators. Merkel's election confirmed European stability is a much safer bet than US stability, especially given Trump's increasingly erratic outbursts. Sterling also made up some ground, increasing from 1.30 to 1.34 USD. It also managed to appreciate against the euro but lost its gains again towards the end of the quarter.

Stock markets

Table 1.1 - General

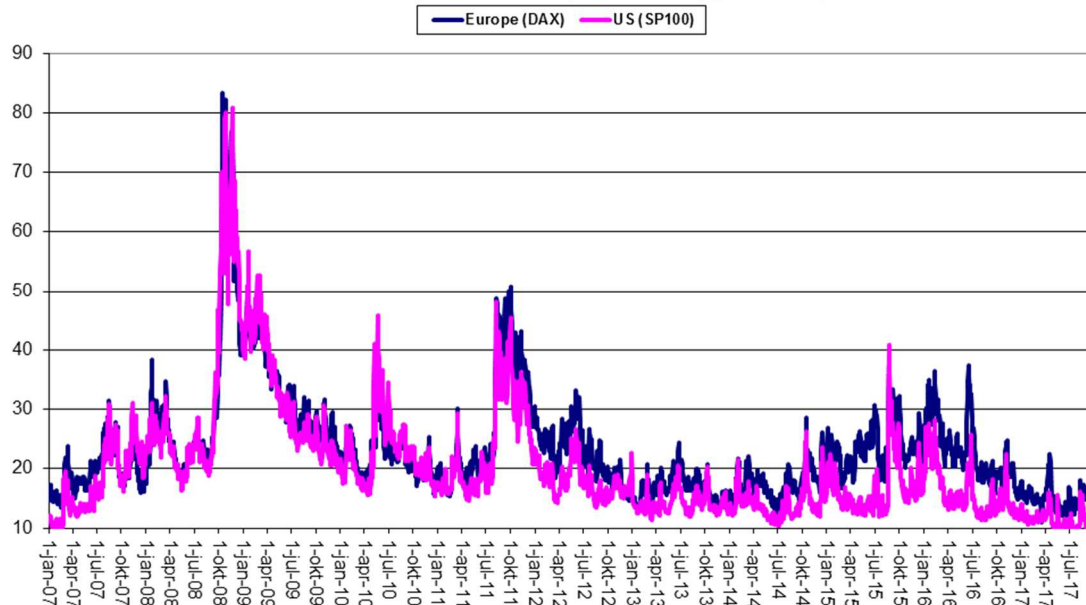
	30-sep-17	30-jun-17 - 3 mnd	31-mrt-17 - 6 mnd	31-dec-16 - 9 mnd	30-sep-16 - 12 mnd
AEX	537,06	5,90%	3,97%	11,15%	18,73%
BEL20	4017,75	5,91%	5,26%	11,41%	12,99%
DAX	12828,86	4,09%	4,19%	11,74%	22,05%
EU50	3594,85	4,44%	2,68%	9,25%	19,74%
DJ	22405,09	4,94%	8,43%	13,37%	22,38%
SP500	2519,36	3,96%	6,63%	12,53%	16,19%
Nasdaq	6495,96	5,79%	9,88%	20,67%	22,29%
EUR/USD	1,1814	3,40%	10,90%	12,30%	5,11%
Euribor 3 months	-0,3290	0,0020	0,0000	-0,0100	-0,0280
NL govt 10 year	0,5780	-0,0780	0,0000	0,2210	0,5740

Despite a rather poor start for most European countries all market indices ended up posting green figures due to a strong September month. Euro appreciation was hurting European exporters' competitiveness, especially Germany given its strong dependence on export. Luckily we saw investor optimism take the upper hand in September due to strong economic fundamentals. Moreover, investors had the grand reveal of the ECB's tapering plans in October to look forward to. The rising expectations of a tighter monetary policy triggered a rally in bank shares. On the other side of the Atlantic the US indices also continued to perform well, mainly thanks to information technology stocks. Consumer staples was the only sector which showed a negative development with Kellogg and Kraft Heinz as the most remarkable losers.

Implied Volatility

Yet again volatility was driven by the political side with president Trump proving he can singlehandedly cause more uncertainty than hurricanes Irma and Harvey put together. This meant the investing community had to reach an even higher level of indifference, now also effectively ignoring the threat of a potential nuclear war. In similar fashion to past quarters volatility peaked in the middle of the period and died down again. We are now at historically low levels.

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



The long term

The third quarter was quite turbulent for the AEX but it managed to regain the value lost in the previous quarter. Drivers were the strong development of the oil prices, banks and technology companies. US-related worries continued to plague Ahold Delhaize, thus putting downward pressure on the index.

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

