

GENERAL INVESTMENT CLIMATE

The Economy

The European stock markets started out strong this quarter. Investors found room for optimism after Trump and Kim Jong-un buried the hatchet and seeing the rather encouraging first quarter results. However, the end of the second quarter was yet again overshadowed by the trade war between the US and the rest of the world. After import taxes on solar panels and washing machines in January, tariffs were implemented on steel and aluminium by the end of the first quarter. As if that wasn't enough, Trump introduced additional import taxes on a whole range of Chinese goods and a solemn vow to not rest until not a single Mercedes rolls down Fifth Avenue. Sadly, it doesn't seem like we've seen the last of the tariff race and the American President is becoming more frantic with every day. The potential further escalation of the trade war caused widespread purchase hesitance on the markets, resulting in faltering stock prices.

The latest developments on the European political front were also far from market-friendly. The arduous government formation in Italy really did a number on European stock prices and also contaminated other South-European countries. It was only after Di Maio ruled out any extreme policy changes in the near future and confirmed that Italy would be sticking with the euro for now that calm returned to the markets. Although it seems written in the stars that the new controversial Italian government will be looking to make its mark on European policy, especially when it comes to migration. It's that same topic which made the divisions within the German government painfully clear at the end of this quarter.

On to monetary policy: On the 14th of June the ECB declared that – in case their economic forecasts are correct – the asset purchase program will be concluded by the end of 2018. Initially this was planned for September but Draghi & Co decided to add another quarter of monthly bond purchases, be it at half the pace with 15 billion euros per month. Finally, the ECB indicated there won't be a rate hike before the summer of 2019, which was later than expected.

Their American counterpart, the Fed, took a less cautious approach. The rate was cranked up another 25 basis points to 2%, already the seventh increase this cycle. On top of that two more hikes were put forward for 2018, followed by three in 2019. The commentary provided by Chairman Powell showed him to be considerably more optimistic than his predecessor Yellen, who continuously emphasized we should not expect the high rates from the past to re-emerge any time soon.

Oil prices performed remarkably well this quarter. For example, the Brent price increased about 16%. Towards the end of the May things did not look as pretty after OPEC and Russia (AKA OPEC+1) announced they would be increasing production. When this increase turned out lower than expected the price of the black gold showed a recovery of more than 11%.

A final word on macroeconomics: The economic expansion on quarterly basis in the Euro Area fell back for the first time in five quarters from 0.7% to 0.4%. US growth

also decreased from 2.9% to 2%. Inflation in the Euro Area increased sharply due to increasing oil and food prices. While in April inflation was at only 1.3%, the next two months this increased to 1.9 and 2%. In the US inflation increased from 2.4% to 2.8%. Finally the jobless rate in the Euro area declined further from 8.5% to 8.4%, the lowest level since December 2008. Surprisingly enough the unemployment rate in the US decreased further, from 4.1% to 3.1%.

Currency and Money Markets

The second quarter marked the end of the euro's advance. After the peak in Eur/USD of almost 1.24 at the start of April the currency depreciated almost unabatedly to a level of 1.17 at the end of the quarter. This development could've been caused by different factors but the main cause was probably the delayed rate hike by the ECB. The appointment of the Eurosceptic government in Italy and the EU's struggle to come to an agreement on migration seriously dented confidence in the euro. The British pound couldn't take advantage of the weak euro, partially due to the stronger than expected fall in inflation in the UK. Their relationship remained virtually unchanged.

Stock Markets

Table 1.1 - General

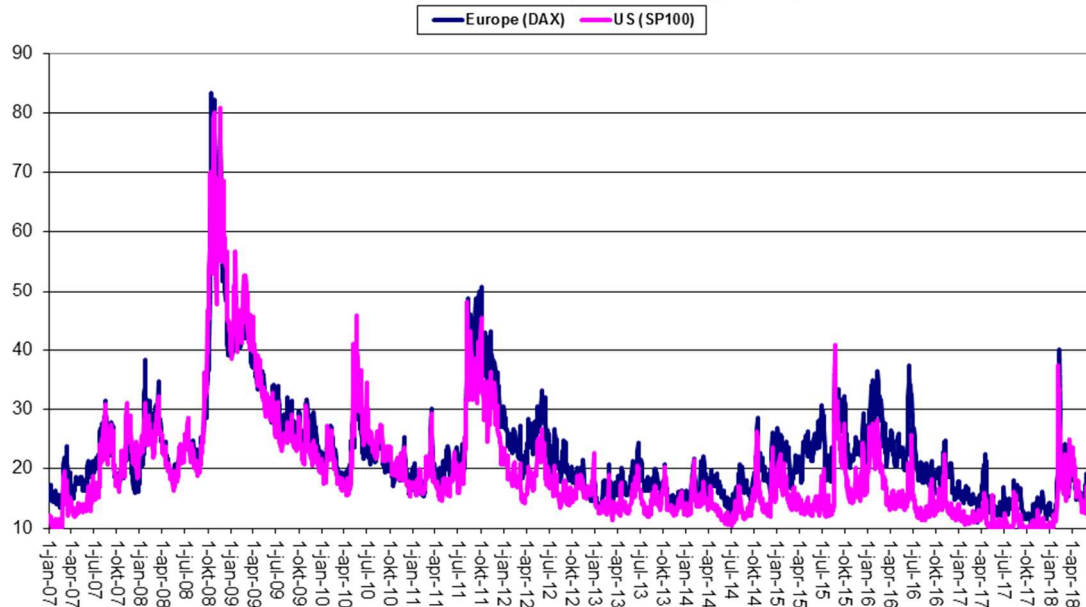
	30-jun-18	31-mrt-18 - 3 mnd	31-dec-17 - 6 mnd	30-sep-17 - 9 mnd	30-jun-17 - 12 mnd
AEX	551,68	4,18%	1,30%	2,72%	8,78%
BEL20	3719,86	-3,56%	-6,49%	-7,41%	-1,94%
DAX	12306,00	1,73%	-4,73%	-4,08%	-0,16%
EU50	3395,60	1,01%	-3,09%	-5,54%	-1,34%
DJ	24271,41	0,70%	-1,81%	8,33%	13,69%
SP500	2718,37	2,93%	1,67%	7,90%	12,17%
Nasdaq	7510,30	6,33%	8,79%	15,61%	22,31%
EUR/USD	1,1683	-5,20%	-2,68%	-1,11%	2,25%
Euribor 3 months	-0,321	0,007	0,008	0,008	0,010
NL govt 10 year	0,462	-0,181	-0,067	-0,116	-0,194

Due to the turbulent European climate and the continuous threat of a trade war, the European indices lost much of their profits recorded in April and closed off on average with a meagre plus. The American stock markets seem less worried about their great leader's antics. The S&P500 showed nice gains and the Nasdaq even recorded one of its best quarters in a long time. In terms of sector performance, the most striking development was the stumbling of the seemingly infallible chip manufacturers. For the first time since long they had bad news to report, mainly because of disappointing smartphone sales. In these uncertain times more and more investors were driven towards more defensive investments such as supermarket chains. Oil shares also performed well thanks to the positive OPEC news and increasing optimism about a global recovery of the oil industry.

Implied Volatility

The beginning of the quarter was on the quiet side with little bad news and a peaceful Trump, which resulted in declining volatility. Towards the middle of the quarter, a period of political unrest broke out with the difficult governmental formation in Italy, struggles in Germany and Trump picking fights with almost all of the US' trade partners. Nevertheless, it's fair to say that given the current circumstances the implied volatility could be a lot higher and investors are showing themselves quite resilient.

Table 1.2 Development of the implied volatility jan 07 - jun 18



The Long Term

The AEX had a strong run this quarter, certainly in comparison with the other European indices. Top performers were Philips, Royal Dutch Shell and Wolters Kluwer. Nevertheless, towards the end of the quarter the index fell back to its moving average due to the abundance of negative news flow.

Table 1.3 Long-term development AEX jan 03 - jun 18

