

GENERAL INVESTMENT CLIMATE

The Economy

After a mixed second quarter for the European stock markets, the third period started out cautiously optimistic. It would seem Italian prime minister Di Maio's soothing words were well-received as the markets started showing green figures again after poor performance in June. Nevertheless, the ongoing trade war between the US and the rest of the world remained the dominant factor. Trump still threatened to slap tariffs on any kind of import coming from China if they didn't reconsider some of their unfair trade practices. Meanwhile, Europe was facing the threat of increased tariffs on automotive export to the US. By the end of July, European Commission President Juncker managed to buy time after negotiating with the US President. The two agreed on a 120 day period to produce a report laying the foundation for a new trade deal between the two nations. China was less fortunate as Trump escalated the trade conflict further with an additional wave of tariffs on 200 billion USD worth of products on top of the 50 billion USD already in place. This meant that effectively half of all Chinese imports into the United States faced levies of 10% by the 24th of September, before climbing to 25 percent on January 1st. If that wasn't enough the US President stated another 267 billion's worth of tariffs were ready to go on short notice if necessary. With both nations showing no signs of backing down and the possible prospect of a global economic slowdown, European investors' bearishness peaked.

The European Union was shaking in its foundations again this last period. In Germany the migration-related debate still raged on, further destabilizing the shaky CDU/CSU coalition. As Merkel faces continued opposition to her European solution for the migrant influx on both the German and the European scene, it's starting to become clear that the "Queen of Europe" is being guided towards her political exit. We saw anti-EU sentiment flare up again as right-wing populist parties openly showed defiance to EU authority. Authoritarian governance in Poland and Hungary continued, unabated by the possibility of European repercussions. And by the end of the quarter the Eurosceptic Italian government came back on its promise to cut its debt, setting budget deficit for the coming three years at 2,4%. Meanwhile in the UK, Theresa May is still struggling to find an answer to the impossible Brexit question.

Within this political maelstrom monetary policy decisions still had to be made: On the 26th of July Draghi confirmed the previously communicated plans regarding asset purchases. He also reiterated the growth and inflation outlook set in June. The ECB conference on the 13th of September was no different as the deposit rate was kept stable at -0.4% and the main refinancing rate at 0%. They did slightly lower their growth estimations for the Euro Area due to the ongoing trade conflict.

In the US we saw a far less timid approach. Despite president Trump's disapproval the Fed raised its key interest rate for the third time this year and announced yet another hike in 2018, normally planned for December. This meant the federal funds rate was raised with 25 basis points to a range of 2 to 2.25%. Powell struck a bullish tone as he communicated an increased growth forecast for the US economy.

Concluding with macroeconomics: The economic expansion on quarterly basis in the Euro Area was unrevised from last quarter with 0.4%. US growth made a strong comeback, increasing from 2% to 4.2%. Inflation in the Euro Area remained around the same level of 2%, with a notably higher salary level. ECB president Draghi insisted this really marks a comeback of core inflation as contributions by the more volatile inflation components, like the oil price, are decreasing. In the US inflation hovered around the previous level of 2.8%. Finally, the unemployment rate in the Euro area declined further from 8.4% to 8.2%, the lowest level since November 2008. The US jobless rate seems to have hit the bottom around a level of 3.9%.

Currency and Money Markets

The euro remained under pressure this quarter as headwinds came from several directions. First of you had the prospect of the short term interest rates remaining low for at least another year while the Fed did yet another rate hike. Then there was the contagion risk of the Turkish economic crisis and finally Rome giving investors a reason to worry about the future of the EU. Meanwhile, the US dollar benefited from the market's flight to safety – the US dollar being a typical safe haven currency – amidst growing uncertainty due to the escalating trade war. Overall, it's a small miracle the euro only depreciated roughly 0.7% against the US dollar.

Stock Markets

Table 1.1 - General

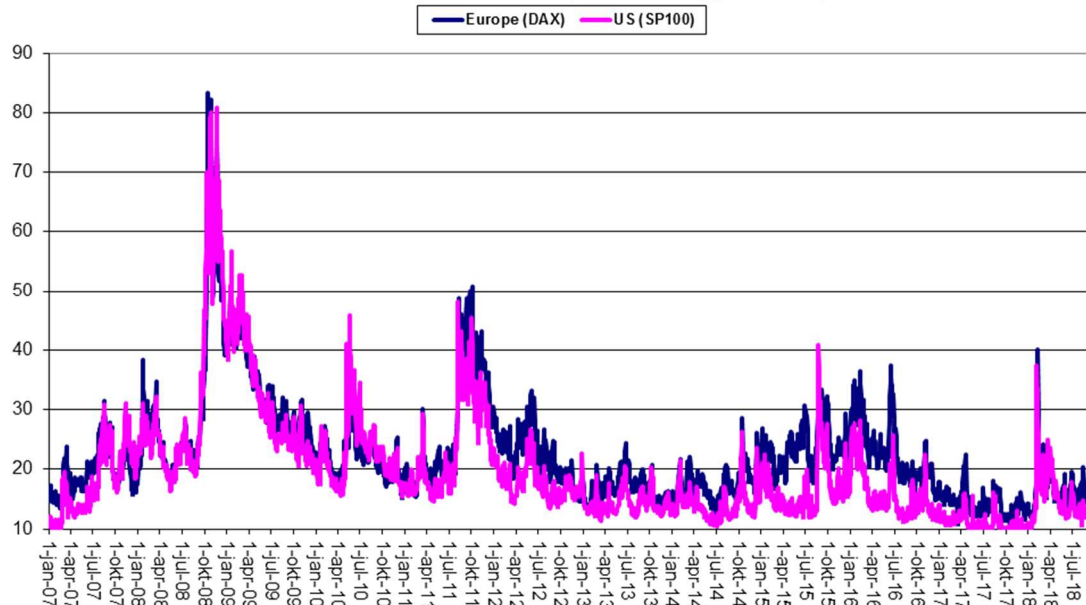
	30-sep-18	30-jun-18 - 3 mnth	31-mrt-18 - 6 mnth	31-dec-17 - 9 mnth	30-sep-17 - 12 mnth
AEX	549,62	-0,37%	3,80%	0,93%	2,34%
BEL20	3706,74	-0,35%	-3,90%	-6,82%	-7,74%
DAX	12246,73	-0,48%	1,24%	-5,19%	-4,54%
EU50	3399,20	0,11%	1,12%	-2,99%	-5,44%
DJ	26458,31	9,01%	9,77%	7,04%	18,09%
SP500	2913,98	7,20%	10,34%	8,99%	15,66%
Nasdaq	8046,35	7,14%	13,92%	16,56%	23,87%
EUR/USD	1,1604	-0,68%	-5,84%	-3,34%	-1,78%
Euribor 3 months	-0,318	0,003	0,010	0,011	0,011
NL govt 10 year	0,580	0,118	-0,063	0,051	0,002

Yet another quarter where the discrepancy in performance between the US and the European stock markets paints an extreme difference in mentality. The European indices followed a stable to slightly decreasing pattern until a small recovery by the beginning of September. Meanwhile the S&P 500 continued its steady increase as if the news on the escalating trade war never reached investor's ears. Nasdaq followed a less smooth trajectory as the FAANG stocks faced selling pressure, due to Facebook's disappointing Q2 figures. Moreover, news of US regulators moving ahead with their plans for increased tech regulation weighed further on investor sentiment. However, this bearishness evaporated in August with the tech index chalking up its strongest August in 18 years after the conclusion of a new NAFTA deal with Mexico.

Implied Volatility

After several months of quasi-equal development we saw the implied volatility gap between the US and Europe widen again. This could be attributed to ongoing political tensions in several EU member states like Germany and Italy. Meanwhile the Brexit talks seem to be at an impasse with both the UK and the EU making irreconcilable demands. As cherry on the cake there was the possible contagion of Europe's banking system by Turkey's economic crisis.

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



The Long Term

AEX performance was along the lines of the other European indices. The slight quarterly decrease of 0.37% meant it dipped below its moving average for the first time since February, 2018. Nevertheless, the index was still up 2.34% year on year.

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

