

## GENERAL INVESTMENT CLIMATE

### **The Economy**

After a strong first quarter, the second quarter proved to be much choppier. Despite the hiccups in March, the stock markets started off rather optimistically with a slight gain. The further postponement of interest rate hikes caused investors to turn a blind eye to the persistently weak macroeconomic signals from Europe. Moreover, it was another quarter filled with political friction and a difficult changing of the guard at the European top. Once again we saw signals that raise questions about the political independence of central banking policy.

Draghi's successor, Christine Lagarde, will clearly not be allowed to deviate much from the current interest script, and in the US we saw Jerome Powell succumb to the pressure of Trump and Wall Street. After keeping interest rates stable at the beginning of May and sending "hawkish" signals into the world – much to the dismay of President Trump - the Fed signalled on June 19 that an interest rate cut was on its way. However, as it turns out there was still no consensus on this topic among the American central bankers, with roughly a 50/50 division.

On the European side, we also saw a return to "dovish" policy. On 6 June the ECB decided to fix the low interest rate until mid-2020, 6 months longer than expected. With the increasingly bleak outlook due to the impact of the trade war, the targeted rise in inflation did not materialize. Moreover, the fear of recession still has its grip on the market. The extension of the stimulus was therefore well-received by investors after a poorly promising month of May.

It will not surprise anyone that a certain controversial president had another busy quarter on Twitter. On the 5<sup>th</sup> of May, Trump announced his decision to raise import tariffs on Chinese goods worth 200 billion USD from 10% to 25%, as soon as 10 May. Ignoring the fact that it wasn't feasible to accomplish this in such a short period, it was clear to the markets that the trade talks with China weren't going smoothly. In addition, the US head of state threatened to tax the remaining 325 billion USD of imported goods at 25% in the near future.

Aside from China, Trump was also arguing with Mexico, the US' largest trading partner. He expressed his dissatisfaction with their lax approach to the influx of immigrants into the US and used the threat of import tariffs to force them into action. This strategy proved successful after Mexico promised to host the refugees awaiting the approval of their asylum application. The 'indefinite suspension' of the Mexican import tariffs happened to be one of the driving factors behind the recovery on the stock exchanges in early June.

Some investors drew hope from this agreement for a possible resolution of the trade conflict between the US and China, even though the relationships here are clearly different.

Given the macroeconomic developments, oil prices remained fairly stable. They managed to hold their ground until the second half of May and even rallied shortly after the attack on the two oil tankers in the Gulf of Oman. However, this was followed by a significant dip with, for example, the Brent price falling from ~ 70 euro per barrel to ~ 60 euro per barrel. Concerns about a slowing global economy due to the trade war and accumulating oil inventories in the US were the main causes

here. In June there was a small recovery to ~ 65 euros per barrel, partly due to increasing tensions between the US and Iran.

Finally, macroeconomics: quarterly economic expansion in the Eurozone marked a slight increase from 0.2% to 0.4%. The US growth partially recovered from 2.2% to 3.1%. Furthermore, inflation in the Eurozone fell again, from 1.4% to 1.2%. In the US, inflation also dropped further, from 1.9% to 1.6%. The unemployment rate in the Eurozone continued its steady descent, now from 7.8% to 7.5%. The unemployment rate in the US remained virtually unchanged at 3.7%.

### Currency and Money Markets

Over the past period, the euro has seen a slight increase relative to the USD: from 1.12 to 1.13 USD. The exchange rate maintained a steady course in the month of May, but in June things became a bit livelier. Apart from economic developments, there was a strong influence of the Fed and ECB communication on the currency ratio. At a conference in Portugal, President Draghi indicated that the ECB still has ample room to stimulate the economy and is prepared to make use of it. This caused a noticeable weakening of the euro and also pushed the European government paper to record lows. Draghi's message was met with harsh criticism from President Trump who called it “unfair competition based on cheaper currencies”. Finally, the pound sterling depreciated against the euro from 1.16 to 1.12 euros amidst the ongoing Brexit debacle.

### Stock Markets

**Table 1.1 - General**

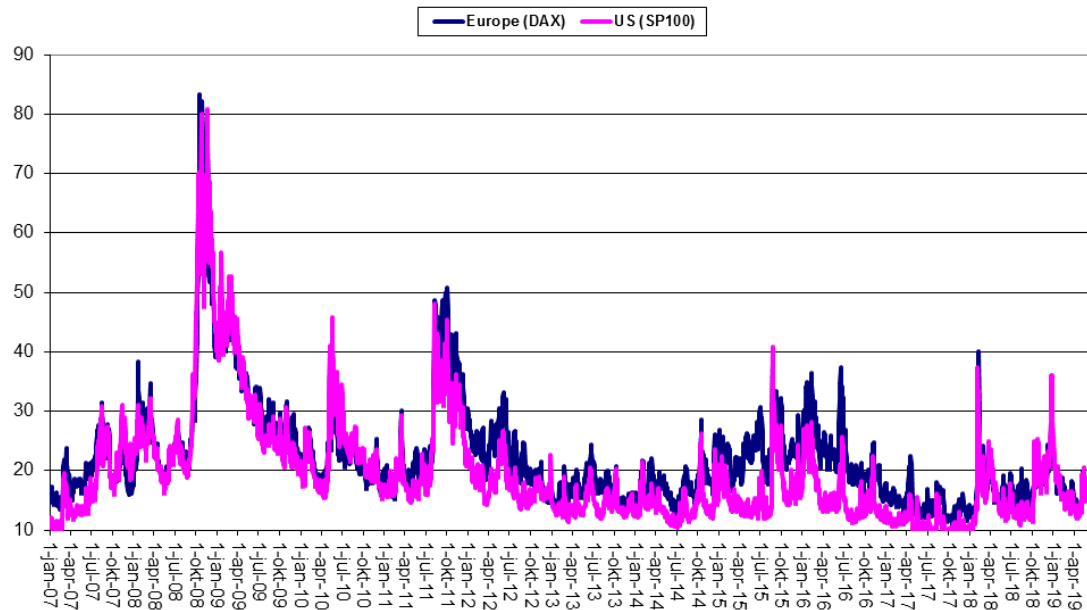
	30-jun-19	31-mrt-19 - 3 mnth	31-dec-18 - 6 mnth	30-sep-18 - 9 mnth	30-jun-18 - 12 mnth
AEX	561,76	2,33%	15,14%	2,21%	1,83%
BEL20	3547,46	-3,04%	9,37%	-4,30%	-4,63%
DAX	12398,80	7,57%	17,42%	1,24%	0,75%
EU50	3473,69	3,64%	15,73%	2,19%	2,30%
DJ	26599,96	2,59%	14,03%	0,54%	9,59%
SP500	2941,76	3,79%	17,35%	0,95%	8,22%
Nasdaq	8006,24	3,58%	20,66%	-0,50%	6,60%
EUR/USD	1,1368	1,35%	-0,88%	-2,03%	-2,70%
Euribor 3 months	-0,345	-0,034	-0,036	-0,027	-0,024
NL govt 10 year	-0,156	-0,188	-0,546	-0,736	-0,618

The months of May and June followed a V-pattern with a noticeable dip of 4-6% in May and the reverse movement in June. Apart from the DAX, which underperformed in the first quarter, there were no major movements among the indices. The stock market landscape is still heavily characterized by the wait for the outcome of the trade talks between the US and China. The more cyclical companies are starting to suffer from the slowdown in the car market in both China and Europe, and the global consumer electronics market. Consensus remains that the first half of the year will be weak and the second half should show improvement. However, this scenario is now increasingly being called into question due to the continuing sharp rhetoric from both the American and the Chinese side and absence of any real economic improvements.

## Implied Volatility

By now, it is clear that the markets don't scare easily anymore. Even Trump's claims of recalling an airstrike at the very last moment could only bring about a slight increase in volatility, which also faded away relatively quickly. In the meantime, the resignation of British Prime Minister Theresa May and the potential succession by notorious Eurosceptic Boris Johnson also made little impression on the market. This may indicate that the markets make little distinction between the soft and hard versions of the Brexit. What will be the outcome is still anyone's guess.

Table 1.2 Development of the implied volatility jan 07 - jun 19



## The Long Term

Again a solid performance from the AEX. Just like the other European indices, it made the ride up and down last quarter, but in the meantime it maintained a level above the moving average.

Table 1.3 Long-term development AEX jan 03 - jun 19

