

GENERAL INVESTMENT CLIMATE

The Economy

Yet again a quarter full of turmoil. Geopolitical themes like the trade war, Brexit and unrest in the Middle East continue to make their mark on the economic climate. Just like last quarter we saw the trade war escalate further and as usual, the attack came from the American corner. President Trump expressed his dissatisfaction with a 10% increase of the import tariffs on USD 300 billion worth of Chinese goods. Later in August, China responded with new rates on USD 75 billion worth of US goods. September was a month of de-escalation with the US and China increasingly exempting each other's goods from taxes, while using more conciliatory language.

We were also confronted with the return of the inverted yield curve, which is often seen as an indicator for an impending recession. Are we heading for a recession? This is a tough call in these times of great uncertainty. What we can tell is that underlying indicators tracking the state of the world economy are in continuous decline. In addition to the manufacturing PMI (Purchasing Managers Index), the services PMI was also hit for the first time, both in the US and in Europe. We also saw prospects for the global automotive industry becoming increasingly grim, which will also leave its mark on other sectors such as chemicals and semiconductors.

Oil prices also had a wild ride. Brent oil started the quarter at ~ 65 USD per barrel and dropped to ~ 56 USD by the end of July. The reason for this was concern about demand for oil given the cooling economy. Oil prices rebounded as tensions in Iran continued to mount as a result of the oil tanker incident. Finally, we saw a peak on September 14 after the drone attack on Saudi Aramco, which temporarily took out about 5 percent of world oil production from the market.

The price later flattened to around USD 61 per barrel after it became clear that the loss of oil production would be offset by the national reserves of Saudi Arabia and other oil producing nations like the US.

The third quarter also had striking developments regarding monetary policy by the respective central banks. As announced, the Fed lowered interest rates on July 31. Fed Chair Jerome Powell gave three reasons behind this decision: the slowdown in growth in the rest of the world, especially in the euro zone and China, uncertainty about trade policy and the need to boost inflation. He noted, however, that this was not the start of a new series of interest rate cuts, much to the displeasure of Wall Street. The Fed also decided to call an early end to the balance sheet run-off, which was planned for the end of September.

The decision of their European counterpart was no less controversial. Chairman Draghi lowered the deposit rate by ten basis points from -0.4 to -0.5%, a historic low. The base interest rate remains unchanged at 0%. A new asset purchase program of 20 billion EUR per month was also launched from November, with no end date for the time being. This decision was clearly anything but unanimous with fierce criticism from representatives from countries such as France and the Netherlands. We even saw German ECB director Sabine Lautenschläger resigning in protest. Draghi is not making it easy for his successor. Lagarde will have to decide in November whether she will be continuing the current policy or a different one. Both decisions would immediately make her unpopular with some part of the crowd.

Finally, macroeconomics: quarterly economic expansion in the Euro Area fell slightly from 0.4% to 0.2%. American growth also declined: from 3.1% to 2%. Furthermore, inflation in the Euro Area dropped again, from 1.2% to 0.9%. In the US, on the other hand, inflation went up again, from 1.6% to 1.7%. The unemployment rate in the Euro Area continued its descent, now from 7.5% to 7.4%. The unemployment rate in the US also fell again from 3.7% to 3.5%.

Currency and Money Markets

Throughout the quarter, the euro has lost more ground against the USD. The currency slipped from ~ 1.14 USD to ~ 1.09 USD. Central banking policy again played a prominent role with more negative interest rates in European Monetary Union. Other possible causes are the increasingly volatile political situation with a high chance of a hard Brexit and the further weakening of the German economy. The British pound made a sharp fall in early August from 1.12 to 1.06 euros due to the increasingly wild rhetoric of brand new Prime Minister Boris Johnson.

Later, the currency recovered to ~ 1.13 euros, mainly due to the weakness of the euro following the unexpected cut of the deposit rates.

Stock Markets

Table 1.1 - General

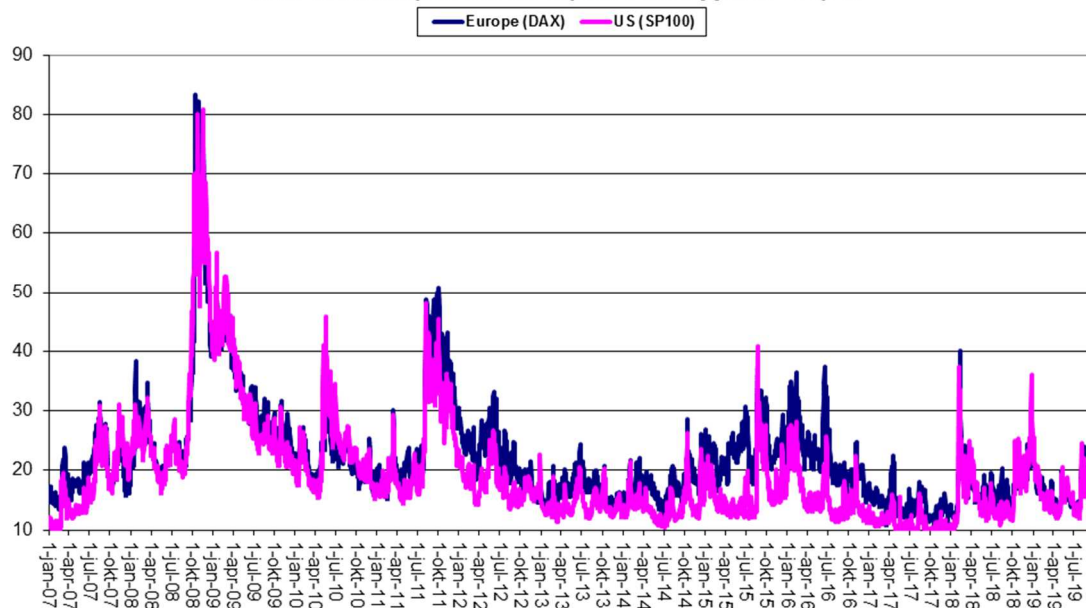
	30-sep-19	30-jun-19	31-mrt-19	31-dec-18	30-sep-18
		- 3 mnth	- 6 mnth	- 9 mnth	- 12 mnth
AEX	580,23	3,29%	5,69%	18,93%	5,57%
BEL20	3714,12	4,70%	1,51%	14,51%	0,20%
DAX	12428,08	0,24%	7,83%	17,70%	1,48%
EU50	3569,45	2,76%	6,50%	18,93%	5,01%
DJ	26916,83	1,19%	3,81%	15,39%	1,73%
SP500	2976,74	1,19%	5,02%	18,74%	2,15%
Nasdaq	7999,34	-0,09%	3,49%	20,56%	-0,58%
EUR/USD	1,0900	-4,12%	-2,83%	-4,96%	-6,07%
Euribor 3 months	-0,418	-0,073	-0,107	-0,109	-0,100
NL govt 10 year	-0,424	-0,268	-0,456	-0,814	-1,004

In a sense, the third quarter was a more extreme version of the second quarter with a more pronounced dip and subsequent recovery. July in itself was not very exciting with a slight rise that eventually levelled off towards the end of the month. August was a different story, with sharp falls between 6 and 8% for all European indices. Things got better when China and the US buried the hatchet. The stock markets reflected this with a hefty recovery to almost the level of early August. In a turbulent quarter, the AEX and the BEL20 still managed a decent plus, while the DAX stayed put. Note that this time the American indices underperformed their European counterparts. This could be attributed to the Fed's sudden change of heart regarding the interest rate, which some people on Wall Street interpreted as a bad omen. In these volatile times, investors are increasingly fleeing to safe harbours such as gold but also to more stable stocks with a robust business model, of which the performance is relatively independent of economic activity.

Implied Volatility

This past quarter saw again a strong peak in volatility with further escalations in the trade war. It has now become a known pattern of escalation and de-escalation with minimal impact in the longer term. In the meantime, Theresa May's successor, Boris Johnson, threatened to leave the EU without agreement. This also made little impression, both on the EU and on the market. Aside from this, the market got rattled by the mysterious drone attack on Saudi Aramco, but here too the impact on volatility was short-lived.

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



The Long Term

The AEX continues to perform well despite the temporary dip below the moving average in August. It's clear that the Dutch index is less affected by the slowdown in the industrial sector than some other indices such as the DAX.

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

