GENERAL INVESTMENT CLIMATE

The Economy

Despite being relatively uneventful, there have been notable shifts in sentiment during the third quarter of 2023. The result of the monthly survey on consumer sentiment done by the University of Michigan showed that American consumers have become more confident in their personal finances than a year ago, but their confidence is still subdued by the many uncertainties in the trajectory of the US economy. This was again highlighted by the US Government, only narrowly avoiding a government shutdown. In the EU and euro area, GDP growth was flat and consumer confidence declined during the quarter as households became more pessimistic about their present and future financial situation and the expected general economic situation. Especially the confidence in the construction industry slipped due to a combination of a less positive reassessment of order books and shortages in the labor market. The percentage of European managers indicating shortages of labor as a constraining factor remained at a high level of 28.6%. Meanwhile, labor disputes in the US have led to strikes at the big three automobile manufacturers (GM, Ford, and Stellantis) as employee earnings continue to struggle to keep up with the high levels of inflation. Workers in the euro area, on the other hand, have started to catch up with inflation as the annual inflation rate came down to 4.3% in September from 5.2% in August. Despite the positive trend in inflation, policymakers of the ECB decided to hike their rates twice in Q3 to a level of 4.5% for the refinancing rate. Meanwhile, the Fed hiked its targeted range to a 22-year high at between 5.25%-5.5% in July. As there are record-high levels of household debt after a prolonged period of low-interest rates, the rising interest rates are starting to pose problems of their own. Nevertheless, there is an apparent healthy impact on inflation rates, with the annual rise in prices excluding food and energy falling below 4.0% for the first time in over two years.

Concerns about the Chinese economy also continue to weigh on market sentiment. China’s quarterly GDP growth showed a slow pace of 0.8% in Q2 compared to 2.2% in the first quarter. Exports plunged by 14.5% year-on-year in July after a 12.4% drop in June. Furthermore, retail sales only rose by 2.5% and industrial production by 3.7%, which was far below the 4.5% and 4.4% respectively that analysts expected. Interestingly, the National Bureau of Statistics said they are suspending the youth unemployment number release due to economic and social changes. Credit rating agency Fitch recently noted that China’s slowdown was casting a shadow on global growth prospects. As many global companies generate a significant portion of their revenues in China, weakening demand could indeed have global consequences. However, it may not all be gloom and doom from a Western perspective, as weak demand also means that prices of Chinese exports are likely to stay low. In response, China’s central bank cut its one-year loan prime rate to 3.45% from 3.55% in an attempt to boost its economy.

The energy market is still characterized by the OPEC+ supply cuts that were agreed on in June until the end of 2024. The tight situation in supply and demand is shown in the global low levels of inventories and relatively high prices. Producers are ramping up output in an attempt to capitalize on the high prices, while refiners remain more cautious. Crude oil prices averaged $86 per barrel in Q3, up from $80 per barrel in the previous quarter. Brent crude, the global benchmark, reached a high of $93 per barrel in September, before easing back slightly towards the end of the quarter.

Currency and Money Markets

In the Q3 of 2023, the aggressive monetary tightening by the Fed in the last 18 months led to a rise in demand for the USD, while the concerns about economic growth in Europe and China weighed on the EUR and CNY. As a result, the EUR/USD exchange rate fell by over 3%, while the USD/CNY exchange rate rose by over 3%.
Meanwhile, the 10-year US Treasury yield continued to surge to its highest level since 2007 as Fed policymakers indicated some disagreement about possible new hikes before the end of the year but agreed that rates will have to stay elevated for a longer period of time. The same goes for European government bonds, whose prices fell as investors were surprised by Italy's larger-than-expected budget deficit and the mounting concerns about the elevated interest rates.

Stock Markets

Table 1.1 - General

	30-Sep-23	30-Jun-23 - 3 mnth	31-Mar-23 - 6 mnth	31-Dec-22 - 9 mnth	30-Sep-23 - 12 mnth
AEX	728,79	-5,83%	-3,62%	5,77%	13,76%
BEL20	3553,01	0,28%	-6,33%	-4,00%	5,42%
DAX	15386,58	-4,71%	-1,55%	10,51%	27,01%
EU50	4174,66	-5,10%	-3,25%	10,04%	25,81%
DJ	31676,59	-7,94%	-4,80%	-4,44%	10,27%
SP500	4053,74	-8,91%	-1,35%	5,58%	13,06%
Nasdaq	12496,99	-9,36%	2,25%	19,40%	18,17%
EUR/USD	1,0573	-3,08%	-2,10%	-1,19%	7,87%
Euribor 3 months	3,95	0,38	0,91	1,82	2,78
NL govt 10 year	3,19	0,45	0,49	0,28	0,76

After a period of optimism, the stock markets ended Q3 enveloped with uncertainties about the global economic outlook. All three major US indices posted significant losses. Still, the tech-heavy Nasdaq ended the quarter with a strong year-to-date performance. S&P500 companies will begin to report Q3 earnings later this month, which will show whether expectations of a slight increase in earnings prove to be accurate. European stocks have also logged their worst quarter of the year, even though to a less negative degree. Belgian stocks are the exception, ending the quarter around the same level as the previous one, still with a negative year-to-date performance.

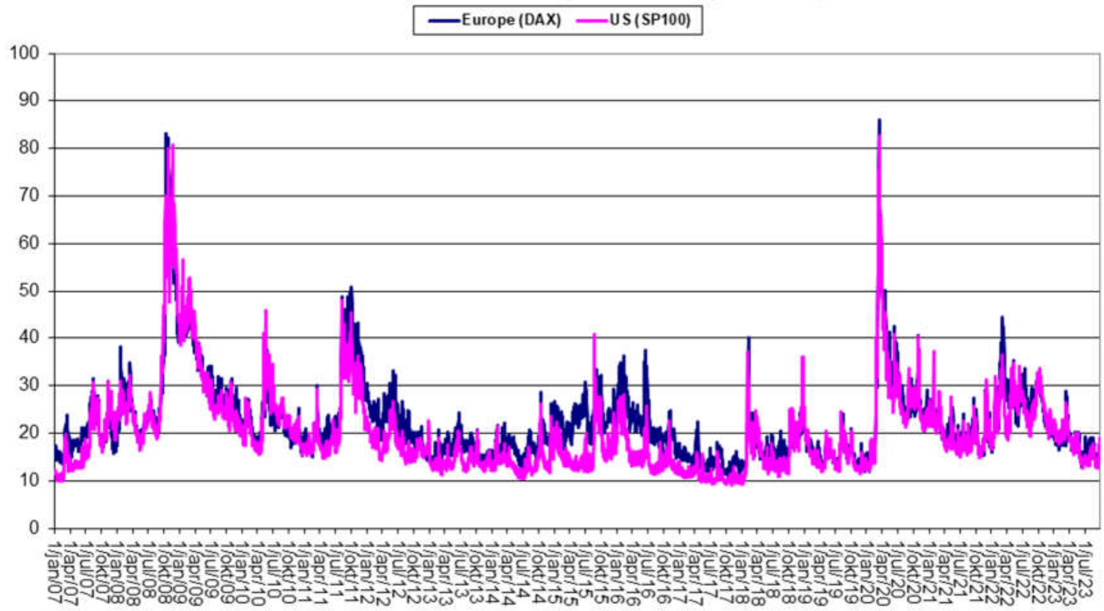
Other markets

Global M&A activity fell slightly during the quarter, with the US year-on-year increase of 35% largely offsetting the decline of deal volumes in Europe and Asia of 31% and 9% respectively. The financing environment remained challenging for leveraged buyouts, leading to increased use of alternative financing solutions such as earn-out structures and contingent value rights. Furthermore, the growing complexity of European antitrust regulations and unpredictability in the US affected the number of so-called "megadeals", which would otherwise contribute significantly to the activity.

Implied Volatility

In contrast to the evenly moving implied volatility during Q2, the US and European stocks show divergence during Q3. Due to the recent AI hype, which affected certain companies much more than others, US stocks have shown more volatility during Q3 than their European counterparts.

Table 1.2 Development of the implied volatility jan 07 - sep 23



The Long Term

As a result of a weak Q3 on the back of strong performance this year, the AEX is now trading below its 200-day moving average. This was expected in light of the macroeconomic developments and should not be a direct cause for concern. Order books at ASML, the largest constituent, continue to be filled and De Nederlandsche Bank still forecasts a slight economic growth for 2023 of around 0.8%.

Table 1.3 Long-term development AEX jan 03 - sep 23