

GENERAL INVESTMENT CLIMATE

Economy

The past quarter was dominated by elections. In the US, Donald Trump was re-elected, while in Germany an agreement was reached between the governing parties on early elections.

Trump's election has left the world in confusion. His election promises in the economic field are inconsistent and some of his political statements can have a major economic impact. Imposing hefty import tariffs will inevitably lead to greater inflation. The deportation of millions of immigrants – many of whom work hard in the American economy – will lead to a standstill of entire industries and thus to a decline in the growth of the economy. It will also result in a shortage of labour and thus higher labour costs and, after passing this on, to a further increase in inflation. Import tariffs will not lead to better relations with other countries (Mexico, Canada, the United Kingdom and the European Union) and countermeasures will also affect the American economy. Lowering taxes for individuals and businesses will further increase budget deficits. At the end of 2023, the US-debt amounted to 122% of the Gross Domestic Product. - This will lead to higher interest rates, which will also reduce growth. It seems likely that the economic team that Trump will install will have the sense of reality to forget the election rhetoric and water down the plans to a significant extent.

The question is whether Trump's plans in terms of the role of the government will be watered down to the same extent. The idea of giving free rein to the big business of his new political multibillionaire friends may lead to smaller companies becoming the victims.

More importantly, Trump is threatening to reduce or abolish the independence of the Federal Reserve. This could seriously damage investors' confidence in the US economy with a falling dollar and an economic downturn. The deep division of the American population that came to the fore again during the election period will certainly not benefit good decision-making.

It is to be feared that the above scenario will turn Trump's motto, Make America Great Again, into an empty phrase.

Against this background, the Fed is still showing itself to be independent to this day. In December, the FED chose to cut the policy rate by a step of 25 basis points. As a result, the deposit rate is now 4.50-4.75% compared to 4.75-5.00%. In November, it also opted for a 25 basis point move after a larger 50 basis point move in September. At the end of the year, it was made clear that further cuts should not be expected in the coming months.

In Europe, there have been turbulent developments in the political situation in two of the most important countries that have had an impact on the financial markets. In France, the government put together by President Macron fell. As the financial markets feared new elections, the spread in government bond yields with Germany rose to levels not seen in a long time.

In November, on the day that Trump's election became clear, it also became clear that Olaf Scholz's German government would not sit out the ride until the end of his term. New elections have now been called for the end of February.

At the beginning of December, the European Central Bank (ECB) lowered interest rates again. It was a decrease of 25 basis points, from 3.25 to 3 percent. It is already the fourth interest rate decline in a row.

Foreign exchange and money markets

During the fourth quarter, the euro fell continuously against the dollar, from 1.1135 at the end of September to 1.0353 at the end of the year. The main reason was the difference in interest rate expectations between the US, where further interest rate cuts are off the table for the time being, and Europe, where they may still be expected.

The ECB said it would look at this on a meeting-by-meeting basis.

The next meeting is on January 30.

Stock markets

Tabel 1.1 - Algemeen

	31-Dec-24	30-Sep-24 - 3 mnd	30-Jun-24 - 6 mnd	31-Mar-24 - 9 mnd	31-Dec-23 - 12 mnd
AEX	878,63	-3,46%	-4,89%	-0,36%	11,67%
BEL20	4264,53	-0,82%	9,71%	10,89%	15,02%
DAX	19909,14	3,02%	9,18%	7,66%	18,85%
EU50	4895,98	-2,09%	0,04%	-3,69%	8,28%
DJ	42544,22	0,51%	8,76%	6,88%	12,88%
SP500	5881,63	2,07%	7,71%	11,94%	23,31%
Nasdaq	19310,79	6,17%	8,90%	17,90%	28,64%
EUR/USD	1,04	-7,02%	-3,36%	-4,05%	-6,21%
Euribor 3 maanden	2,71	-0,57	-1,00	-1,18	-1,20
NL govt 10 jaar	2,60	0,18	-0,24	-0,01	0,26

The trends of the first three quarters of the year continued in the fourth quarter. The flow of investment money across the ocean led to a further rise in the US indices, mainly caused by price gains on technology stocks. The European main indices fell. The decline in the Europe mid & small indices was even stronger, and they ended the year with a significant loss.

For the full year 2024, the main European indices still rose, with the exception of France's CAC40, where the political situation and the plans for higher corporate taxes obviously did not do any good.

The AEX rose due to the large weight of the American activities in a large number of companies. The exception was ASML, which hardly changed on balance in 2024 after years of outperformance.

The shares of companies with largely European activities underperformed, in line with the Dutch, French and German mid & small caps.

Half of the increase in the DAX was attributable to SAP, the leading European technology stock next to ASML.

As a result of price developments over the past year, the divergences between valuation multiples in Europe and the US have risen to historical records. The same applies to the differences between the larger European stocks and the mid & small caps.

Other markets

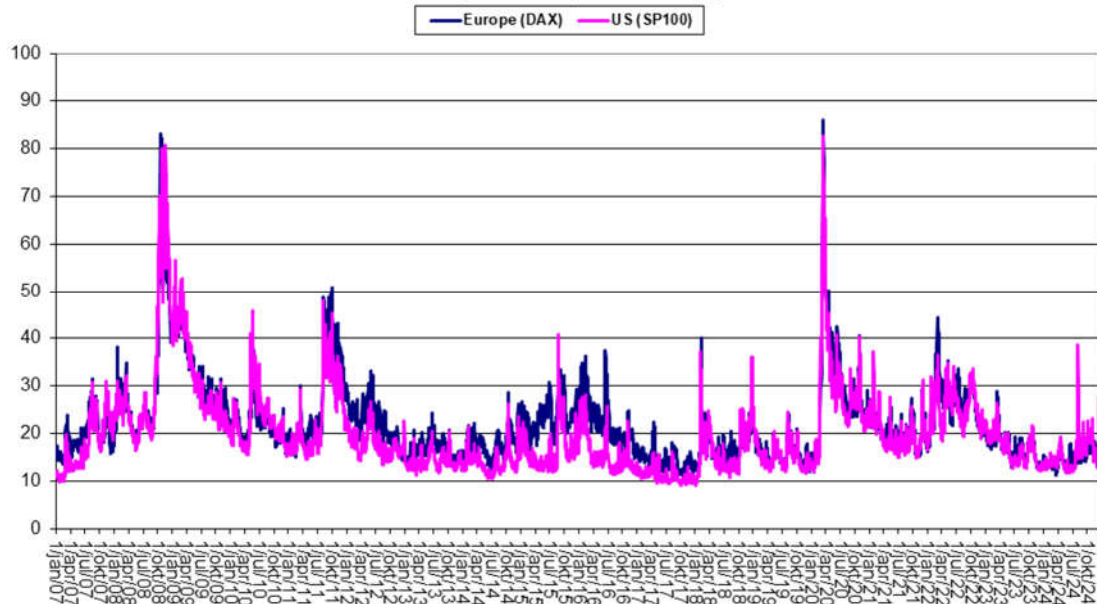
At the beginning of the quarter, the oil price rose from \$72 to \$80 per barrel of Brent oil and then fell back to the level of the beginning of the quarter. Oil ended the year at a price of \$74.

Not only the US stock markets seemed to be the victim of a wave of speculation, bitcoin also reached new highs with an increase of 45% in the past quarter.

Implied volatility

After Trump's election victory, there was a short-lived rally in US stocks. This led to a decline in implied volatility toward historic lows. After 5 weeks, a strong correction occurred that led to a peak in the level of volatility. By the end of the year, everything had returned to pre-November 5 levels. The European indices hardly changed and volatility remained stable.

Tabel 1.2 Ontwikkeling van de implied volatility jan 07 - dec 24



The long term

At the end of October, AEX fell below its (200-day) moving average. The index touched this a few times, but stayed below it. Meanwhile, there was hardly any increase. The combination of both implies a less optimistic picture for the coming quarters and had put an end to the rally that started in early 2024.

Tabel 1.3 Lange termijn ontwikkeling AEX jan 03 - dec 24

