

# KEYPRIVATE

Next generation portfolio management



## KEYPRIVATE Quarterly Update

Q2 2023



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The second quarter of 2023 is now behind us. This gives us a chance to look back at the first half of 2023. It was a good time for equity investors. Most indices rose nicely. Only investors in Belgian shares will feel a bit disappointed, because the BEL20 posted a negative return. On the economic front, many economists continued to warn of a global recession, but contrary to all expectations, the global economy did not perform badly in the first half of the year. This once again illustrates how difficult it is to forecast events. Monetary policy was the only factor that occasionally left a sour taste behind. Despite falling inflation figures, Western central bankers are still pushing for further tightening of monetary policy!

## Economische omgeving

*The favourite indicator for global economic trends, which members of the Keyprivate investment committee look at closely each month, is the direction in which international manufacturing confidence is moving. Figure 1 clearly shows that manufacturing confidence has been rising since the end of 2022. We also note the high correlation between manufacturer confidence and the quarterly growth in the global economy (shown by the grey bars). On the basis of this diagram, we can probably count on average growth of 3% for the global economy. What is even more important is the image this diagram gives us. Which is clearly not a picture of a shrinking economy or a global economy heading into recession. Nevertheless, we will remain alert to any possible reversal in the trend of international manufacturing confidence, but based on this diagram we are not adopting a defensive investment strategy yet. It should come as no surprise that in this environment the main stock markets performed well in the first half of the year (see below).*

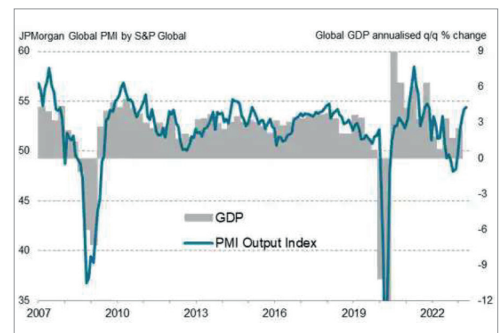


Figure 1: Trend in global manufacturing confidence and growth of the global economy  
Source : JPMorgan, S&P Global



Figure 2: Trend in activity levels in the industrial and service sectors  
Source : JPMorgan, S&P Global

One finding that we cannot ignore is the divergence between activity in the industrial sector and in the service sector. From the reports on the trend in global manufacturing confidence, it has been striking for some time that growth in the service sector is stronger than that in the industrial sector. One explanation for this diverging trend is the fact that the service sector is organised more regionally or by country, while the industrial sector is organised more internationally (such as companies that produce in China and sell in Europe). International statistics show that growth in the Chinese economy in 2023 remains below expectations. An acceleration in Chinese growth would therefore have a positive impact on global industrial activity, which could reduce the difference between the industrial and service sectors. Nevertheless, this divergence between the two sectors is the main focus of attention for the Keyprivate investment committee. If there is no convergence, we will undoubtedly have to pursue a more defensive investment policy, as it could bring a recession closer.



Even more important for investors and economic analysts has been the trend in inflation figures in the first half of the year. Here again, we saw the trend persisting in the first few months of 2023. In the wake of lower commodity prices, inflation figures fell lower in the Western world. Figure 3 shows the trend in input costs (the prices for the goods and services that companies need for their production process) and sales prices («prices charged»), and the trend is very clearly falling. This is a reassuring trend for the financial markets: as a result, investors expect a less tight monetary policy, and some are already dreaming of cuts in interest rates. There is a problem here because, despite this favourable inflation trend, Western central bankers continue to explain that the fight against inflation has not yet been won and that interest rate hikes are still possible. This explains the volatility that is regularly flaring up on the markets, because more and more investors have already priced in the end of the period of rate increases.



Figure 3: Trend in international purchase costs and sales prices  
Source : JPMorgan, S&P Global

**Conclusion:** the economic recovery we described at the end of Q1 2023 continued during the second quarter of 2023. As a result, we can already conclude that there is not a global recession materialising in 2023. The figures above really paint the picture of an expansionary global economy, so we do not see any reason at present to become pessimistic about the growth prospects of the global economy. One point we should pay attention to, however, is the diverging trend between activity in the industrial and service sectors. We have also seen favourable figures on the inflation front, but so far these have not led to any change in monetary policy in the US and Europe.

## Financial markets first half 2023



### Equity markets

We often hear “Sell in May and go away” in the second quarter. This is based on the fact that traditionally shares do not perform so well from May to October. On the other hand, they perform more strongly in the months from October to April. But those investors who sold in May this year will have sacrificed some of their returns. For instance, June this year was a very good month for investors, as the main indices rose by more than 2%. Generally speaking, the first half of the year was a very good year for equity investors: US and European large cap stocks gained more than 10%. However, our leading national index, the BEL20, posted a disappointing performance in the first half of the year. Given the widespread fear of recession at the start of the year, this is yet another proof that forecasting is a tricky business: at the start of the year, very few analysts were forecasting an increase of more than 10%. On the contrary, investors were being advised to pursue a defensive investment strategy, because the expected recession would have a negative impact on corporate earnings. But in the first half of the year, investors instead seemed to be anticipating an expected recovery in growth for the global economy and mainly bought shares. And historical statistics show that a good first half of the year is often followed by a good second half.

#### Return on share trackers Q2 2023 (in EUR)

MSCI World	6,76 %
MSCI Emerging Markets	2,97 %
MSCI Europe	2,32 %
MSCI Europe small caps	-0,75 %

#### Return on share trackers H1 2023 (in EUR)

MSCI World	13,24 %
MSCI Emerging Markets	4,36 %
MSCI Europe	11,26 %
MSCI Europe small caps	5,43 %

Table 1: Returns on Keyprivate share trackers Q2 2023  
Source: Bloomberg

Returns on Keyprivate share trackers H1 2023  
Source: Bloomberg



## Bond markets

Unlike equity markets, bond markets struggled in the first half of 2023. To work out why the bond markets have been treading water, the first thing you need to look at is the central bankers. In both the US and Europe, the central bankers continued talking harshly: despite a clear fall in the inflation figures, the central bankers are still predicting further rate hikes. As a result, the expected end of the tight monetary policy cycle is being pushed further out in time, and there is no prospect of bond markets relaxing (even temporarily). What's more, we cannot overlook the fact that equity investors are betting on an economic recovery (see above): this also has a negative impact on the bond markets. An economic recovery often goes hand in hand with higher commodity prices, and that is an outlook bond investors don't much like, because it leads us back round to expecting upward pressure on inflation. In short, bond investors are facing challenging times.

Returns on bond trackers Q2 2023 (in EUR)		Returns on bond trackers H1 2023 (in EUR)	
Government bonds of the Euro zone	0,06 %	Government bonds of the Euro zone	1,82 %
Bonds on emerging countries	-0,39%	Bonds on emerging countries	0,66%

Table 2 : Returns on Keyprivate bond trackers Q2 2023  
Source: Bloomberg

Returns on Keyprivate bond trackers H1 2023  
Source: Bloomberg



## Commodity markets

The second quarter was one best quickly forgotten by commodity investors. Almost all the main commodities fell in price. And this is a strange comment given that we stated above that equity investors are betting on a global economic recovery. However, there was little sign of it on the international commodity markets. As part of the economic recovery scenario, we would expect a better performance from, for example, the price of copper. However, Table 3 shows that industrial metals lost more than 10% in the first half of the year. The gold price also dived in the second quarter with a negative return of around 3%. The absence of the expected fall in long-term interest rates in Western industrialised countries kept 10 year interest rates at a high level. This has a negative impact on the price of gold, which would benefit from a global interest-rate cut. Nevertheless, the price of gold managed to turn in a positive return over the first half of the year as a whole.

Performances trackers on commodities Q2 2023 (in EUR)		Performances trackers on commodities H1 2023 (in EUR)	
Gold	-3,45 %	Gold	3,28 %
Industrial metals	-11,29 %	Industrial metals	-14,83 %

Tale 3 : Returns on Keyprivate commodity trackers Q2 2023  
Source: Bloomberg

Returns on Keyprivate commodity trackers H1 2023  
Source: Bloomberg

## 4. Net returns on Keyprivate portfolios in 2023

Table 4 shows the net returns achieved by our 10 Keyprivate profiles. Some observations on the net returns in the first half of 2023:

- The equity component of our Keyprivate portfolios made the biggest contribution to the net returns achieved by our Keyprivate portfolios. There has been little rotation here since the start of the year. We opted for trackers that follow the MSCI Europe and MSCI World. These two regions were by far the best. In the second quarter, we saw the MSCI World tracker, which invests indirectly in US (technology) shares, take a clear lead. In our Keyprivate portfolios, the investment committee has slightly overweighted European equities since the start of the stock market rally in October 2022. To date, we have maintained this overweighting. We are doing this with the added expectation of a weaker dollar in the months ahead.
- The bond component of our Keyprivate portfolios made little contribution to the net returns this year. As described above, long-term interest rates in Western industrialised countries are continuing on a rising trend, as central bankers are not offering any glimpse of when their monetary tightening cycle may end. Within the bond component, the Keyprivate investment committee focused primarily on limiting losses. The rotation we made in the first quarter (from emerging market bonds to euro zone government bonds) was a good move in this respect.
- Nor did the commodities component provide a source of extra net returns for our Keyprivate portfolios in the second quarter. Both gold and industrial metals went down in the second quarter, but due to the choice by the Keyprivate investment committee of an investment in gold, we were able to limit the damage.

2023	
Profile	Net
1	0,77 %
2	2,01 %
3	3,26 %
4	4,53 %
5	5,08 %
6	5,71 %
7	7,02 %
8	8,39 %
9	8,99 %
10	9,01 %

Table 4: Net returns 2023 (30/06/2023)

### Net returns 2023 (01/01/2016 – 30/06/2023)

profile		2016	2017	2018	2019	2020	2021	2022	2023
3 - Very defensive	100	2,37 %	2,24 %	- 6,65 %	4,90 %	-1,90 %	10,29 %	-10,10 %	3,26 %
5 - Balanced	100	4,63 %	4,64 %	- 4,84 %	5,02 %	-1,92 %	12,37 %	-10,20 %	5,08 %
7 - Dynamic	100	7,52 %	7,13 %	- 7,78 %	7,11 %	-1,44 %	15,12 %	-9,35 %	7,02 %
10 - Very aggressive	100	5,47 %	8,99 %	- 8,84 %	6,17 %	1,16 %	16,62 %	-10,85 %	9,01 %

These net returns were based on real portfolios established on 4 January 2016 (the first trading day of 2016). These portfolios have therefore been through every re-balancing process. The net returns calculation includes annual management fees and all taxes.

## Looking to the future

Figure 4 shows the most important event of 2023 for equity investors. This diagram shows the performance of the MSCI All Country World Index: this is the benchmark index for equity investors worldwide, and includes the most important Western shares and the most important shares from emerging countries. In short, every major economic region is represented in this index. We see the downward trend in 2022, the bottom in October of last year and finally the rising trend to date. An important positive signal came at the end of the second quarter: at that time, the index broke out above an important zone of resistance. This confirms the rising trend since October 2022, and is seen by the Keyprivate investment committee as an argument for continuing to take a positive view of equities. Despite the numerous calls from well-known stock market analysts to invest more defensively due to an imminent global recession, we will nevertheless continue to invest the maximum permitted weighting in equities in all Keyprivate portfolios. A defensive strategy, including more cash and less equity exposure, cost us some net returns in the first half of the year. We will not change tack until we see a clear trend reversal.

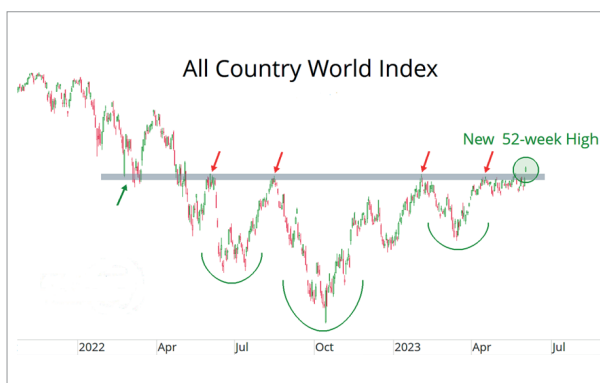


Figure 4: S&P 500 trend  
Source: Allstarcharts

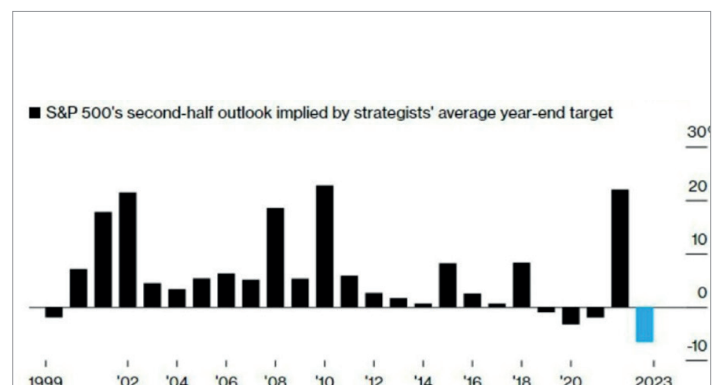


Figure 5: US analysts' price target S&P 500  
Source: Bloomberg

Fears of a global economic recession and the associated negative impact on corporate earnings trends are also reflected in the average price target for the S&P 500, the leading US index. Figure 5 shows that US analysts expect the S&P 500 to be trading around 10% lower on 31 December 2023 than it was at the start of the summer. It is yet another expression of the pessimistic sentiment among numerous economists and fund managers. We have often said that sentiment is an important contrarian indicator. If everyone or a large majority of investors are pessimistic, it is often worth investing in the opposite of this prevailing negative sentiment. On the basis of this graph, we therefore believe that there is a good chance that the major stock markets will continue to rise. We also remember that, at the end of last year, the same economists and fund managers also delivered a pessimistic message to equity investors. At the end of the first half of the year, we can say with certainty that their expectations have not been realised. We wonder if the outcome will be the same on 31 December 2023!



A final point worth looking at is the expected performance of commodities. Since the summer of 2022, cyclical commodities such as oil and copper have been in a downward correction. As a result, commodities have underperformed equity investments in recent quarters. Figure 6 shows the relative performance of equities (represented by the S&P 500 index) and commodities (represented by the CRB Commodity Index). Since the spring of 2020, we have seen a downward trend, which means that commodities outperformed equities. Since the summer of 2022, we have seen a trend reversal: since then, equities have far outperformed commodities. In the meantime, this relative graph has now reached an important point. The curve is hitting a descending resistance line: will there be an upside breakout and will equities continue to outperform commodities, or will there be a trend reversal and will commodities take over the leading role from equities? This trend is being closely monitored by the investment committee, as it could herald a rotation to industrial metals. Definitely watch this space!



Figure 6: Relative performance of shares v. commodities Source : All Star Charts

**Conclusion:** at the start of 2023, an overwhelming majority of analysts and economists were convinced a global economic recession was on its way. In line with this, their advice was to adopt a cautious approach to equities. At the end of the first half of 2023, we note that the economic recession has not yet arrived, and that the stock markets have performed strongly (with the exception of our BEL20 index). The Keyprivate investment committee pursued a dynamic investment strategy, which has already generated handsome net returns for Keyprivate investors. At the start of the second half of the year, we remain optimistic, despite the prevailing pessimism. A point to watch is the trend in commodity prices: a turnaround in this market could create a rotation to the industrial metals tracker, and therefore provide extra returns!

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