KEYPRIVATE Quarterly Update

Q3 2023

An eventful third quarter of 2023 is now behind us. Fears of a global recession continued to grow, long-term rates rose sharply, and the stock markets struggled. Despite this, the Keyprivate investment committee continued to act dynamically in this challenging environment: no defensive steps were taken in the portfolios. Rather, the correction on the stock markets was considered to be temporary breathing space after the very strong performance of the stock markets up to the end of July. The investment committee expects stock market prices to rise again in Q4 2023.

Geert Van Herck
Chief Strategist KEYPRIVATE

Economic environment

At the start of the 2023 stock market year, we saw a welcome recovery in global economic growth. This favourable macroeconomic trend underpinned the rise in the most important global stock markets. Remember that at the end of 2022, many economists and fund managers tended to have a negative attitude: we would no longer be able to avoid a global economic recession, implying that the equity exposure in diversified portfolios should not be too high. However, these forecasts failed to be realised, and in mid-2023 we saw good growth figures for leading indices such as the MSCI World. Still, we have to admit once again that doubts have arisen regarding the economic health of the global economy since the summer months. Figure 1 shows a clear decline in manufacturer confidence in recent months. In line with this decline, we are currently expecting a growth rate of 2%, compared to 4% in the early months of the year. -

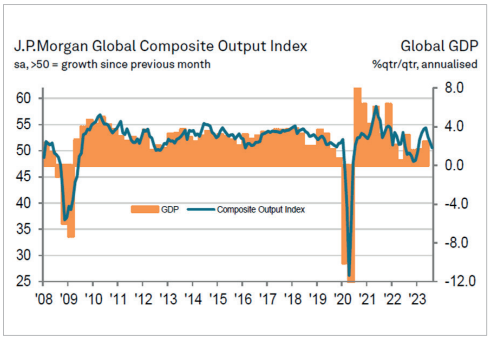

Figure 1: Trend in global manufacturing confidence and growth of the global economy - Source : S&P Global

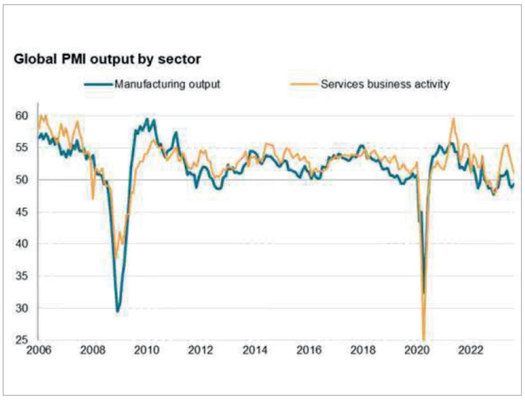

Figure 2: Trend in activity levels in the industrial and service sectors - Source : JPMorgan, S&P Global

Figure 2 shows us that an economic downturn is taking place in both the industrial and services sectors. Until the middle of this year we saw the services sector holding up well, however in the end this sector also fell back. This is a perfectly logical development, as the industrial sector drives the services sector. After all, less activity in the industrial sector leads to less demand for IT services, transport and administration. In addition, we learned from the monthly publications of the confidence figures that many companies were citing lower demand from their customers as the main reason for the decline in their turnover figures. As a result, less is produced and companies deliver from their inventory rather than starting up new production. Nevertheless, we do still expect a slight recovery in economic activity once this reduction in inventory ends. We are also looking to China: can the world's most important economy get the engine running at full speed again?

The cooling of the global economy did have a positive effect: for example, official inflation figures continued to fall further in the most important economic regions. On the one hand, this drop reflects the correction in international commodity prices, while on the other, lower demand in the global economy is causing prices to fall (given a constant supply of goods and services). These lower inflation figures are also of huge importance for Western central banks' monetary policy. We still need to wait a little longer for an official end to monetary tightening in this regard. Although short-term interest rates have already risen sharply, central bankers have, as yet, shown no signs of having reached their peak, while they continue to point out the dangers of high inflation figures. In addition, more and more market players seem to be expecting one final rate hike in the US and the eurozone. If this rate hike were to take place, and if the central bankers did indeed announce that it was the final one, we can expect share and bond prices to start to bounce back.

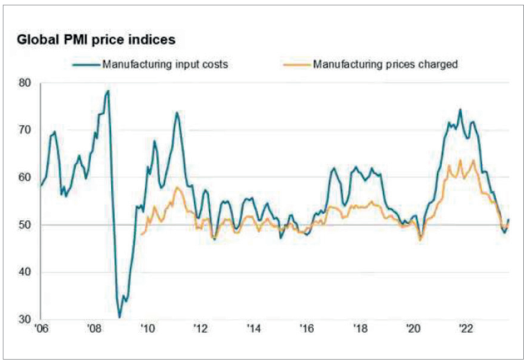

Figure 3: Evolution of industrial buying and selling prices
Source : JPMorgan, S&P Global

Conclusion: In Q3 2023, we registered a clear decline in economic activity. Business leaders pointed to lower demand, which eliminated the need for extra production. This lower activity level in the industrial sector had a negative impact on the services sector. As a result, we saw a general cooling off in the global economy. A positive side effect of lower economic growth was a further drop in Western inflation figures. As a result, we expect the monetary tightening policy in the Western world to come to an end soon. This could provide a breath of fresh air for equity and bond investors.

Financial markets Q3 2023

Equity markets

Table 1 reminds investors once again that the third quarter of this year was not the greatest period for equity investors. The fear of a recession described above was definitely a part of this, as was the "aggressive" talk from central bankers in the West. It was clear that investors were looking forward to the announcement of a final rate hike, but we are still waiting on one. As a result, the sell button was pushed to reduce risk in the portfolio. We should also remember that August-September is normally a weak period every year. If we look at average monthly stock market performance since 1950, we can see that August and September often deliver losses. In this sense, we regard the weak third quarter as being a typical recurring annual correction. Since January 2023 the performance of the most important stock markets has by no means been bad.

Return on share trackers Q3 2023 (in EUR)	
MSCI World	0,16 %
MSCI Emerging Markets	0,09 %
MSCI Europe	-2,00 %
MSCI Europe small caps	-2,36 %

Table 1: Returns on Keyprivate share trackers Q3 2023
Source: Bloomberg

Return on share trackers 9M 2023 (en EUR)	
MSCI World	13,42 %
MSCI Emerging Markets	4,45 %
MSCI Europe	9,03 %
MSCI Europe small caps	2,94 %

Table 1: Returns on Keyprivate share trackers 9M 2023
Source: Bloomberg

Bond markets

Once again, the market was not kind to bond investors in the third quarter of 2023. We said this previously: the relentless increase in official interest rates by Western central bankers has kept long-term interest rates on an upward trajectory. As a result, prices naturally came under pressure. Despite the fact that official inflation figures were falling month after month, there was no halt to the rise in interest rates. However, bond investors could find refuge from falling bond prices by investing in corporate bonds. This category of bonds has a higher correlation to the equity markets. These corporate bonds have been able to post slightly higher prices since the start of the year. For example, an index of European high-yield bonds has risen 3.5% since the start of the year, while high-quality corporate bonds rose by around 1.5%.

Returns on Keyprivate bond trackers Q3 2023 (in EUR)	
Government bonds of the Euro zone	-2,69%
Bonds on emerging countries	-0,74%

Table 2: Returns on Keyprivate bond trackers Q3 2023
Source: Bloomberg

Returns on Keyprivate bond trackers 9M 2023 (in EUR)	
Government bonds of the Euro zone	-0,92%
Bonds on emerging countries	-0,09%

Table 2: Returns on Keyprivate bond trackers 9M 2023
Source: Bloomberg

Commodity markets

Because of persistent fears of recession, few investors will be surprised to hear that commodity markets have not performed particularly well in 2023. There was a surge in prices for industrial metals in the third quarter of this year, but this looked more like a technical recovery, as the price levels of copper, zinc and aluminium have been very disappointing since the start of this year. The price of gold was, of course, influenced by rising long-term interest rates. As a result, the price of gold is losing its lustre compared to bonds. Since gold does not generate income (gold does not pay any dividend or coupon), it competes with bonds for favour with investors. The most recent rate hike therefore led to a negative performance in the gold market in Q3 2023. Nevertheless, the underlying rising trend in the gold price remains in place: since the start of the year, the price movement has still been positive. The most recent price drop is therefore a temporary downward correction within a structurally rising trend.

Returns on commodity trackers Q3 2023 (in EUR)	
Gold	-0,22 %
Industrial metals	2,61 %

Table 3: Returns on Keyprivate commodity trackers Q3 2023
Source: Bloomberg

Returns on commodity trackers 2023 9M 2023 (in EUR)	
Gold	3,05 %
Industrial metals	-12,61%

Table 3: Returns on Keyprivate commodity trackers 9M 2023
Source: Bloomberg

KEYPRIVATE

Next generation portfolio management

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 9 months of 2023:

- Equities have turned out to be the best investment since the start of the year. Despite numerous recommendations to invest defensively and cautiously due to fears of a global recession, equities performed particularly well over the first three quarters. The US stock market and the European markets were the best places for equity investors to be. One negative outlier was the BEL20, Belgium's national stock market index. We have not made any changes to the equity component of our Keyprivate portfolios. We started the year with investments in the MSCI World and MSCI Europe trackers. These trackers are still held in the portfolio with a slight overweighting in European equities.
- Keyprivate's bond component has dragged down the performance of our portfolios. Due to the continuous rise in long-term interest rates, we gained little from our investment in the tracker that tracks government bonds from the eurozone. At the end of the third quarter, the Keyprivate investment committee decided to make a partial rotation into European high-yield bonds. Following extensive analysis within the investment committee, it was decided to invest in these in order to benefit from the close correlation between high-yield bonds and the European equity markets. Moreover, the average maturity of the bonds in this tracker is lower than the one for eurozone government bonds, which would help to mitigate the impact of a further rise in interest rates.
- Since our rotation at the end of February 2023, the gold price has made a positive contribution to the return on our portfolios. No one will be surprised that industrial metals are not performing strongly in the current climate of lower growth. The gold price remains our preferred investment in the commodities component of our portfolios, and should be able to benefit from an expected fall in global long-term interest rates.

2023	
Profile	Net
1	-1,51 %
2	-0,12 %
3	1,25 %
4	2,67 %
5	3,26 %
6	4,12 %
7	5,62 %
8	7,14 %
9	7,88 %
10	7,89 %

Table 4: Net returns 2023 (30/09/2023)

Net returns 01/01/2016 – 30/09/2023									
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 %	1,25 %
5 - Balanced	100	4,63 %	4,64 %	- 4,84 %	5,02 %	-1,92 %	12,37 %	-10,20 %	3,26 %
7 - Dynamic	100	7,52 %	7,13 %	- 7,78 %	7,11 %	-1,44 %	15,12 %	-9,35 %	5,62 %
10 - Very agressive	100	5,47 %	8,99 %	- 8,84 %	6,17 %	1,16 %	16,62 %	-10,85 %	7,89 %

These net returns were calculated 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

An important area of focus within the Keyprivate investment committee is the dominant role of the US: over the past 10 years, US shares have been by far the best-performing stocks. This has prompted some stock market analysts to expect that other regions will take over the leading role of the US in the coming years. After all, nothing lasts forever and cycles come and go. For example, we should see a revival in emerging countries in the next few years, particularly given that the valuation of that region (based on price/earnings and price/book value ratios) is very attractive. Figure 4 shows how emerging countries have systematically underperformed compared to the US in recent years (the US also has a large weighting in the MSCI World index). This is why some argue that a trend reversal is imminent: the Keyprivate investment committee also shares this vision, but we still see that US equities are performing better than equities from emerging countries at present (China has a large weighting in the MSCI Emerging Markets index). If and when our indicators turn in favour of emerging countries, we will not hesitate to make the rotation. First, however, China needs to get its affairs in order, not least recording higher economic growth and, above all, cleaning up its real estate sector.

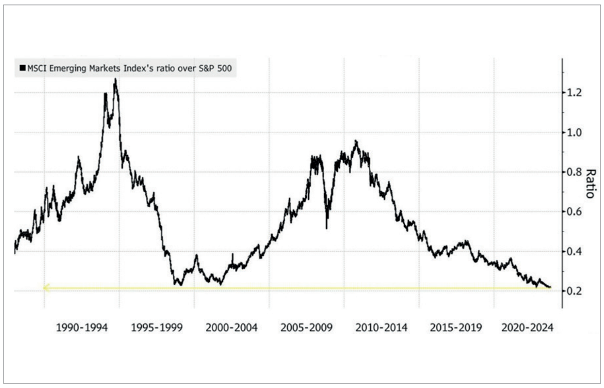

Figure 4: MSCI Emerging Markets vs S&P 500
Source: Bloomberg

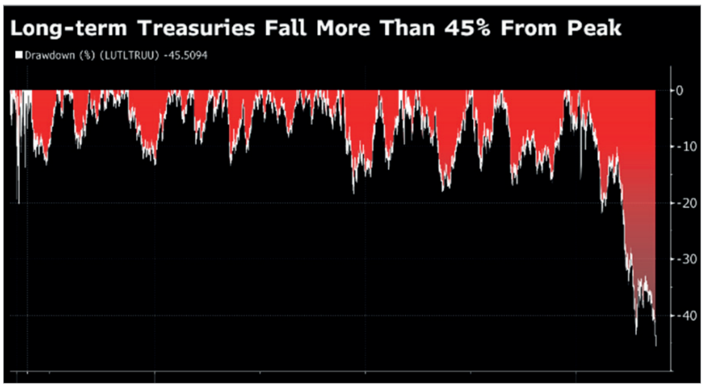

Figure 5: US government bonds
Source: Bloomberg

We are rounding off this quarterly report with an optimistic message for investors. The fourth quarter has started, which is traditionally a favourable period for equity investors or those investors who focus on riskier investments (which also includes high-yield bonds, for example). We consider the most recent correction on the stock markets to be a typical recurring annual correction, not, as most commentators opined, a panic reaction from investors to slowing economic growth or the sharp rise in long-term interest rates. Traditionally, the months of August and September are weak months, in which the likelihood of the stock market falling is greater than the probability of it rising. Figure 6 shows the relatively weak performance of equities in the third quarter, but also the very strong last quarter. As a result, the Keyprivate investment committee started the fourth quarter with maximum exposure to equities within each profile and, within the bond component, an initial position in high-yield bonds taken at the end of the third quarter. We expect the fourth quarter to live up to its reputation as a strong quarter (taken across all figures since the 1950s, the likelihood of an increase is almost 80%).

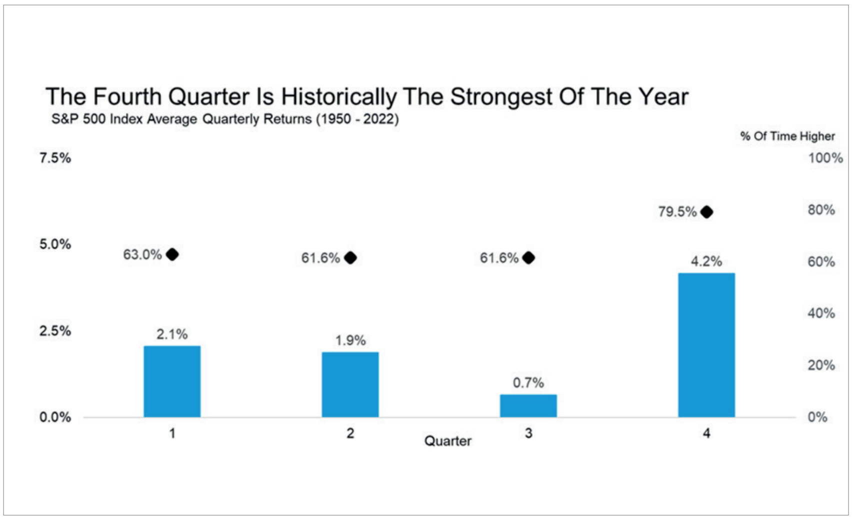

Figure 6: S&P 500 return per quarter
Source : Carson Research

Conclusion: Q3 2023. This was a quarter which was not particularly favourable for investors. Equities, bonds and commodities all struggled with weakening global economic growth and a continued rise in long-term interest rates. In this difficult environment, our Keyprivate portfolios were therefore forced to yield ground. Nevertheless, the Keyprivate Investment Committee is convinced we will be able to recoup these losses during the last quarter of this year. The final quarter has traditionally been a very favourable quarter for investors who embrace risk. During its investment committee meeting at the end of September, the Keyprivate investment committee decided to reflect this reality in the portfolios: in the bond component of our portfolios, an initial position was taken in high-yield corporate bonds with the intention of further expanding this holding over the next few months.

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