KEYPRIVATE Quarterly Update

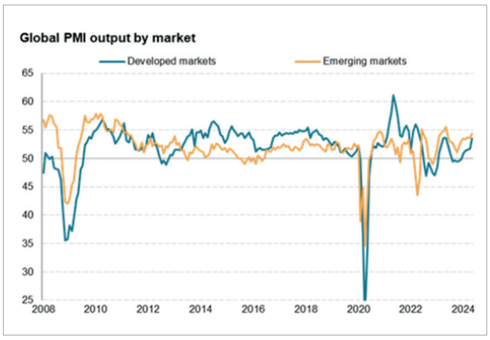
Q2 2024

The first six months of 2024 are now behind us. So, what are the takeaways from this period? The global economy did not enter a recession, which created a positive mood on the international equity markets. Several stock market indices in the US and Europe set new historic records, which has in turn supported the optimistic sentiment. The absence of the expected rate cuts in the US put a dampener on the bond market yields and gold was the star performer on the commodity markets. In this environment, the Keyprivate investment committee steered a dynamic course and our Keyprivate portfolios achieved net returns in line with the market! Below we list the most significant facts of the first half of the year and we look ahead to the coming months.

Geert Van Herck
Chief Strategist KEYPRIVATE

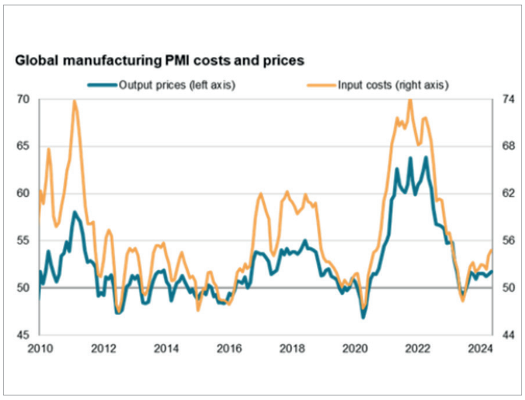
Economic environment

The economic picture still looks good at the end of Q2. Graph 1 shows the trend in manufacturing figures in Western industrialised countries and emerging markets such as China, India, Brazil and South Africa. Both curves are rising in an economic environment we can hardly describe as a recession! It is important to note that both curves have exceeded the important level of 50 points, which indicates that activity is expanding rather than contracting. Even though we occasionally still hear economists or pessimistic fund managers insisting that a recession is imminent, the members of the Keyprivate investment committee tend to focus more on objective indicators such as the international Purchasing Managers' Index (PMI) figures, a monthly indicator of the prevailing direction manufacturer confidence is taking of which an example is shown in Graph 1. Rather than make forecasts, we look at the monthly data and Graph 1 clearly shows an expanding rather than contracting economy. In this environment, dynamic investments are more effective than defensive ones. Until proven otherwise!



Graph 1: Global economic activity trend
Source : S&P Global

An expansive phase of the international economy is associated with an increasing demand for commodities. Economic growth goes hand in hand with higher demand for oil, copper, zinc and other cyclical commodities. Such higher commodity prices naturally mean higher purchasing costs for the companies using these commodities in their production processes. These companies will then try to recover these higher costs by increasing some or all of their sales prices. This causes inflation, which we are seeing again this year. Graph 2 shows the very high correlation between input costs (costs of goods necessary for the production process) on the one hand, and output prices (sales prices) on the other hand. Companies clearly pass higher costs on to their customers by pushing up their sales prices. This then leads to higher inflation figures in Western industrialised countries. This does not necessarily have to lead to a panic situation, but it does show why Western central banks are very reluctantly cutting only their short-term interest rates.



Graph 2: Trend in inflation
Source : S&P Global

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Conclusion: at the end of Q2 2024, the members of the Keyprivate investment committee noted that the main economic indicators were pointing to an expansive global economy. This expansion is accompanied by rising commodity prices, which are increasing inflation figures somewhat in Western industrialised countries. The Western central banks don't like this trend and are therefore taking their time to take their foot off the monetary brakes. We pursued a dynamic investment strategy in this economic environment, in which riskier investments such as shares and high-yield bonds will outperform cash and government bonds.

Financial markets first half 2024

Equity markets

It will not surprise any investors that the main equity markets have had a good first half of the year. Economic growth is often accompanied by strong stock markets, as investors turn their attention to higher earnings by listed companies. The best performer was once again the US stock market (and consequently the MSCI World tracker in which US shares have a weighting of more than 60%), benefiting from substantial price rises for tech giants such as Nvidia, Apple and Microsoft. From Q2 onwards, we also saw a comeback of emerging market shares (represented by the MSCI Emerging Markets index), as very pessimistic sentiment regarding Chinese shares again fuelled a recovery in Chinese markets. European shares almost yielded double-digit returns in the first half of the year: at the end of Q2, French shares were under pressure due to the country's political problems (France accounts for around 18% of the MSCI Europe index). The biggest disappointment of Q1 were European small cap shares, which were unable to take sufficient advantage of the economic recovery. This contradicts previous economic research showing that smaller shares tend to perform best at a time when the global economy is starting to pick up.

Stock tracker returns in Q2 2024 (in EUR)	
MSCI World	4,08%
MSCI Emerging Markets	6,00%
MSCI Europe	1,40 %
MSCI Europe small caps	1,38 %

Table 1: Returns on Keyprivate equity trackers in Q2 2024
Source: Bloomberg

Stock trackers returns in H1 2024 (in EUR)	
MSCI World	16,34%
MSCI Emerging Markets	11,34%
MSCI Europe	9,34 %
MSCI Europe small caps	6,12 %

Table 2: Returns on Keyprivate equity trackers in H1 2024
Source: Bloomberg

Bond markets

The biggest disappointment is the trend in the international bond markets. Many market analysts and economists expected several successive interest rate cuts by the main Western central banks (the Fed in the US and the ECB in the eurozone). However, due to the improving global economy and the slight upward pressure on inflation, the central banks were in no hurry to introduce a more flexible monetary policy. At the start of the year, the bond market was expecting 4 to 6 interest rate cuts in the US, but has now adjusted this to just 1 to 2 interest rate cuts. This is another example of how hard it is to make predictions. Table 4 shows the annual returns on government and high-yield bonds, which were undoubtedly very disappointing! High-yield bonds were still able to achieve a very slight return as this bond category is closely linked to the equity markets. It must be said, though, that bonds clearly contributed little to the performance of mixed portfolios in the first half of the year.

Bond tracker returns Q2 2024 (in EUR)	
Eurozone government bonds	-1,37%
high-yield bonds	0,52%

Table 3: Returns on Keyprivate bond trackers in Q2 2024
Source: Bloomberg

Bond tracker returns H1 2024 (in EUR)	
Eurozone government bonds	-2,02%
high-yield bonds	0,56%

Table 4: Returns on Keyprivate bond trackers in H1 2024
Source: Bloomberg

Commodity markets

In contrast to the international bond markets, commodity investments achieved good returns in the first half of 2024. In Q2, the copper price (40% of the tracker's exposure to industrial metals) rallied as more and more commodity investors responded to improving economic figures from China month after month. However, if we look at the returns in the first half of the year, all we can conclude is that gold was a very good investment. The price of the yellow metal was supported by a whole range of factors, such as geopolitical uncertainty, the possibility of a rise in inflation and sustained demand from the Far East.

Commodity tracker returns in Q2 2024 (in EUR)	
Gold	5,76 %
Industrial metals	8,89%

Table 5: Returns on Keyprivate commodity trackers in Q2 2024
Source: Bloomberg

Commodity tracker returns in H1 2024 (in EUR)	
Gold	16,25 %
Industrial metals	7,09 %

Table 6: Returns on Keyprivate commodity trackers in H1 2024
Source: Bloomberg

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Next generation portfolio management

Net returns of Keyprivate portfolios in H1 2024.

Table 7 shows the net returns achieved by our 10 Keyprivate profiles.
Some observations on the net returns in Q1 2024:

- Shares made a significant contribution to the attractive net returns in the first half of 2024. The main contribution to net returns came from the MSCI World tracker, which benefited from the significant exposure to US shares in general and US technology shares in particular (the top 10 positions of the MSCI World tracker include Nvidia, Apple, Amazon and Microsoft). From April/May, the Keyprivate investment committee noted that the performance of the MSCI Emerging Markets tracker started to improve. Consequently, 50% of the MSCI World tracker was sold to invest in the MSCI Emerging Markets tracker. We were less impressed by the price performance of the MSCI Europe Small Cap tracker, as this exposure reduced our return somewhat. We already included this in the report of Q1 2024: "If European small caps continue to underperform, we will not hesitate to sell the remaining exposure to invest more in European large caps." This sale took place at the start of Q2. Since then, we have seen small caps continuously lagging behind the larger shares from Europe.

- Bonds were the worst-performing asset class in the first half of 2024. The absence of interest rate cuts in Western industrialised countries caused a deflated atmosphere on the international bond markets. Lingering inflation caused long-term interest rates to rise rather than fall in the first months of this year, which resulted in a negative price performance across bond markets. Bonds were unable to make a positive contribution to the returns of diversified portfolios. The main concern was to keep losses as low as possible. From the start of the year, our portfolios invested in the high-yield bonds tracker, which had a neutral effect on returns. We chose this bond category because its duration is shorter than the eurozone government bonds tracker, making it less sensitive to interest rates.

- In the commodities section, the gold tracker was sold at the end of Q2 to invest in the industrial metals tracker. In Q2 2024, we saw more and more signs that the copper price was going to keep improving in comparison with gold. Copper accounts for more than 40% of the industrial metals tracker and the improving copper/gold ratio made the Keyprivate investment committee decide to sell the gold tracker and buy the industrial metals tracker. The main reason for the copper price's good performance is undoubtedly the economic recovery. The energy transition has also pushed up demand in a structural way. In addition to shares, the gold tracker made a significant contribution to the net returns of our Keyprivate portfolios. The Keyprivate investment committee will monitor closely whether the copper price can continue its strong trend in the coming months. Otherwise, we will not hesitate to invest in gold again to protect the performance of the portfolios!

2024	
Profile	Net
1	1,70 %
2	2,78 %
3	3,93 %
4	5,08 %
5	5,36 %
6	6,85 %
7	7,95 %
8	9,10 %
9	9,90 %
10	9,94 %

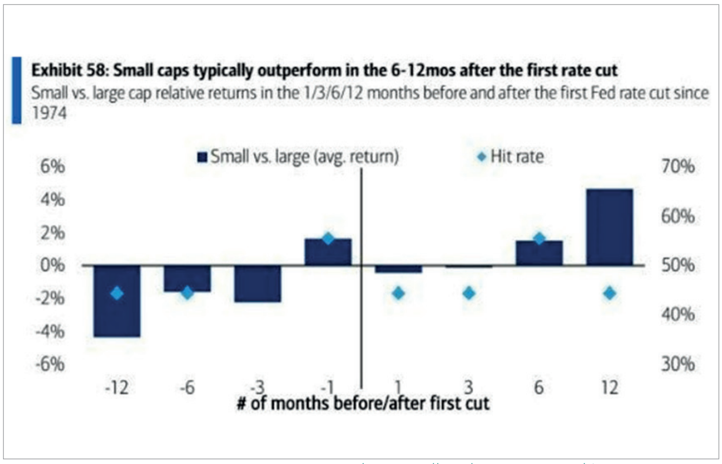
Table 7: Net returns in H1 2024 (30/06/2024)(30-06-2024)

Net returns 01/01/2016 – 30/06/2024										
profile		2016	2017	2018	2019	2020	2021	2022	2023	2024
3 - Very cautious	100	2,37 %	2,24 %	- 6, 65 %	4,90 %	-1,90 %	10,29 %	-10,10 %	7,38 %	3,93%
5 -Balanced	100	4,63 %	4,64 %	- 4,84 %	5,02 %	-1,92 %	12,37 %	-10,20 %	9,36 %	5,36%
7 - Dynamic	100	7,52 %	7,13 %	- 7,78 %	7,11 %	-1,44 %	15,12 %	-9,35 %	11,70 %	7,95%
10 - Very agressive	100	5,47 %	8,99 %	- 8,84 %	6,17 %	1,16 %	16,62 %	-10,85 %	14,06 %	9,94%

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

We have already discussed the disappointing performance of small caps (shares with a market capitalisation of 250 million to 2 billion euros). In expansive phases of the global economy, these shares often outperform their large cap counterparts (shares with a market capitalisation of more than 10 billion euros). This is because industrial shares account for most of the small cap universe. As a result, these small cap shares are the first to achieve increases in sales and earnings. However, this year was a different story. This year, economic expansion did not lead to relatively better returns for smaller shares. Perhaps there will be some support from the central banks. Graph 3 shows that after interest rate cuts, small cap shares start to outperform large cap shares. This finding is also due to the economic cycle: interest rate cuts give the economy oxygen in order to boost growth. The Keyprivate investment committee will monitor the relative performance of small cap shares, and if they start to outperform large cap shares will reinvest in European small cap shares.



Graph 3: Small vs. large caps and interest rate cuts
Source: BofA

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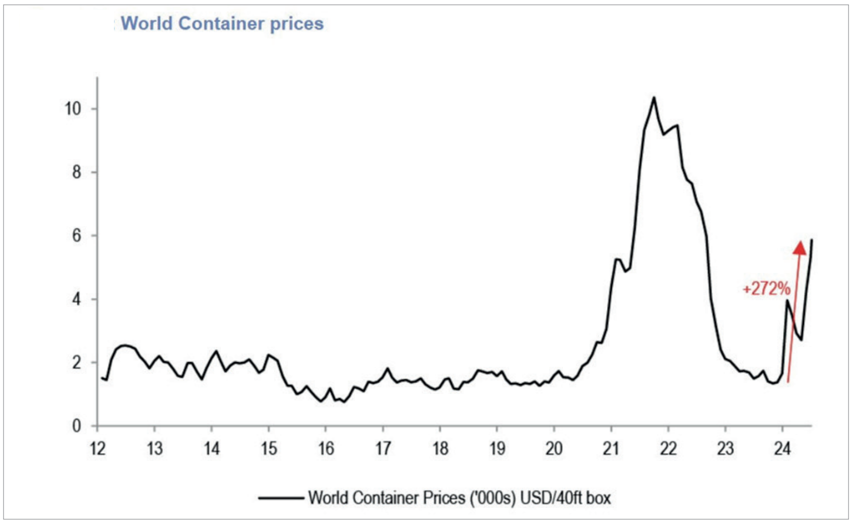
Next generation portfolio management

On the inflation front, we already pointed out higher commodity prices, which are preventing a further fall in inflation. In the short term, we are also expecting an impact from the disrupted logistics chain. Due to geopolitical tensions in the Red Sea, large container ships taking products from the Far East to Europe no longer travel via the Suez Canal. Instead, they are taking the route around southern Africa, which is far longer and therefore costs more in fuel. This of course has an impact on the prices retail chains charge their consumers. Higher consumer prices mean inflation, which takes us back to the central banks: will they lower their official interest rates further as the markets are expecting? This is a trend that can drive up volatility, so our investment committee will continue to monitor our trend indicators and switch to a more defensive investment policy in the event of any increased volatility.



Graph 4: Trend in container prices
Source : Bloomberg

Conclusion: the first half of 2024 was certainly not a disappointment in economic terms. The indicators pointed to increasing industrial activity and we didn't see any signs of an imminent recession. In this environment, we pursued an offensive investment strategy that generated attractive net returns. The only disappointment was the performance of European small cap shares, which failed to benefit from the economic recovery. We continue to monitor the performance of these smaller shares so that we can re-enter the small caps market in the event of further interest rate cuts by the European Central Bank. Generally speaking, we currently do not see any signs to switch to a more defensive portfolio composition.

Published by : Keytrade Bank, Vorstlaan 100 Boulevard du Souverain - 1170 Brussels - BE 0879 257 191 - Belgian branch of Arkéa Direct Bank SA (France)
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