KEYPRIVATE Quarterly Update

Q4 2024

Looking back on the 2024 stock market year, we see an excellent year for equity investors. Expectations at the beginning of the year were not exactly optimistic. Many economists and stock analysts greatly feared that a recession was approaching. Thanks to a strong US, however, the global economy was saved from a sharp downturn. In this environment, Keyprivate portfolios did well and the Keyprivate investment committee's dynamic investment policy paid off nicely.

Geert Van Herck
Chief Strategist KEYPRIVATE

Economic environment

Figure 1 shows the period of US dominance very clearly, as do the equity markets. Following the end of the financial and economic crisis in 2009, the US economy has done much better than the average for the G4 countries (US, Eurozone, Japan and the UK). This contrast has only intensified in recent years. Inportant contributors to the US's more dynamic economy include flexible regulations and the so-called Inflation Reduction Act. The latter served to attract numerous new investments in the US. This greater investment activity increased employment and the demand for goods and services, of course, further supporting growth. The American economy's strong growth also meant the US Federal Reserve was slower to cut interest rates than initially expected at the beginning of 2024. The economic picture for the Eurozone has been disappointing overall. Nevertheless, figures do show businesses applying for more loans. Will this increase investment in Europe and help close the gap with the US? We are mainly hoping for a resurgence of Eurozone economic activity in 2025.

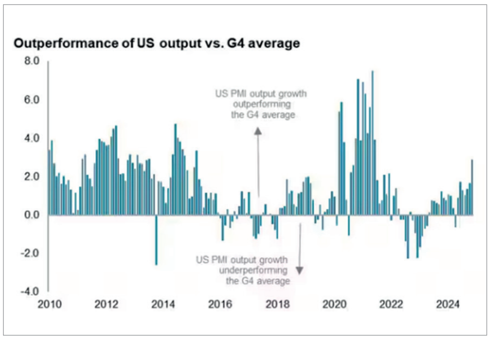

Figure 3: Development of economic activity in USA vs G4
Source : S&P Global

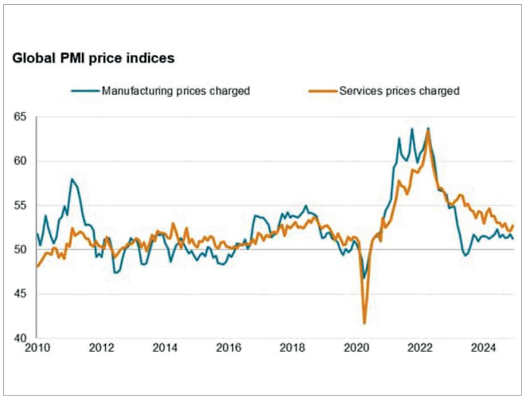

Figure 2: Development of inflation
Source : S&P Global

Regarding inflation, 2024 was also a good year. Inflationary pressure remained relatively limited, allowing Western central banks to cut short-term interest rates and give the economy something of a boost. This was a bonus, especially in the Eurozone. The decrease in inflation was primarily due to 2024's lower commodity prices, of course. With the exception of gold, most cyclical commodity prices (such as oil and copper) went down or showed only a slight increase. Companies no longer felt as much of a need to pass on some or all of their higher commodity costs to customers. While forecasting remains tricky, the Keyprivate investment committee is continuing to keep a very watchful eye on commodity prices and their effects on inflation. If the Eurozone and Chinese economies recover their vigour in 2025, the resulting increase in demand for commodities will drive up prices as well. Returning inflation could potentially be one of the themes for 2025

KEYTRADE BANK

Conclusion: Thanks to the US, 2024 was a good economic year. The feared global economic recession never materialised. While growth in the Eurozone and China was low, hopes for a return of economic vigour in 2025 had increased by the end of the year. Lower inflation figures were a bonus, resulting in more flexible monetary policies in Western industrialised countries. We look forward to further economic recovery in 2025. It remains necessary to keep a watchful eye on inflation, as a rise in commodity prices could well lead to higher inflation and long-term interest rates in turn.

Financial markets Q4 2024

Equity markets

We would describe 2024 as an excellent year for equity investors. Table 2 clearly shows good annual returns for investors in European equities and excellent returns for investors in US equities, which make up more than two thirds of the MSCI World index. The relative strength of the US equity market confirms a trend that has been apparent ever since the end of the financial and economic crisis of 2008–2009. The US market continued this amazing performance in 2024. The emerging markets tracker also performed notably well, despite fears that China would negatively impact returns. This was another prediction that failed to come true. Finally, European equities showed returns of almost 9%. For a continent written off as 'sick' by international investors, that's not bad. This is proof that the economy and the stock market needn't always be linked. Equities can offer positive returns even when economic growth is lacking!

Stock tracker returns in Q4 2024 (in EUR)	
MSCI World	8,00%
MSCI Emerging Markets	-0,74%
MSCI Europe	-2,78 %
MSCI Europe small caps	-3,99 %

Table 1: Returns on Keyprivate equity trackers in Q4 – 2024
Source: Bloomberg

Stock tracker returns in 2024 (in EUR)	
MSCI World	27,33%
MSCI Emerging Markets	14,32%
MSCI Europe	8,89%
MSCI Europe small caps	6,51 %

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

Bond markets

Bond investors had to be satisfied with 'poor' returns in 2024. Anticipated interest rate cuts normally create a good market environment for bond investors. In this case, the US economy's continued strong performance caused them to hesitate. After all, many bond specialists had been waiting for the Federal Reserve to start cutting interest rates since the spring. That first cut kept being postponed, finally arriving in September 2024. As a result, big bond investors did not take any major positions and there was no discernible market trend. Also noteworthy is the fact that once the Federal Reserve began its monetary easing cycle, interest rates on 10-year bonds rose. This barely ever happened during previous rate cut cycles. It is an indication that bond investors expect the US economy to remain strong, increasing the risk of inflation. They aim to protect themselves by requiring higher interest rates to park money in long-term bonds. European high-yield bonds did best in Europe in 2024, thanks to their close correlation with European equity markets.

Bond tracker returns Q4 2024 (in EUR)	
Eurozone government bonds	-0,03%
high-yield bonds	1,58%

Table 3: Returns on Keyprivate bond trackers in Q4 – 2024
Source: Bloomberg

Bond tracker returns 2024 (in EUR)	
Eurozone government bonds	1,74%
high-yield bonds	5,33%

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

Commodity markets

Gold was the best performer on international commodity markets. Table 6 shows cyclical commodities such as copper and zinc doing very poorly in 2024. Copper prices rose sharply several times in quick succession when China approved various economic support packages over the summer. However, these upticks proved to be of brief duration and the price gains eventually melted into thin air again. Gold, on the other hand, saw a continuing strong demand from Asia. The gold market seems to think this was due to many Asian countries in general and China in particular replenishing gold reserves in the wake of the war in Ukraine. We leave the geopolitical weighting of such events to political analysts. All we can say is the demand for gold appears to be structural and can be expected to continue for some time yet. We do not see gold prices dropping far in the immediate future.

Commodity tracker returns in Q4 2024 (in EUR)	
Gold	5,91%
Industrial metals	-7,54%

Table 5: Returns on Keyprivate commodity trackers in Q4 – 2024
Source: Bloomberg

Commodity tracker returns in 2024 (in EUR)	
Gold	33,81 %
Industrial metals	1,01 %

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

KEYPRIVATE
Next generation portfolio management

Net returns on Keyprivate portfolios in 2024

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

- Equities generated the highest returns in 2024 and contributed most strongly to net returns achieved. Throughout 2024, we were invested primarily in the MSCI World and MSCI Europe trackers. Over the summer we also invested in the emerging markets tracker to some extent. However, this tracker's performance lagged behind other regions in the following months. The tracker was therefore sold again in the autumn. We ended 2024 with a slight overweighting of the MSCI World tracker in our Keyprivate portfolios. We do want to make it clear that diversification remains very important, which is why there are limits as to what the Keyprivate investment committee may invest in a single equity tracker. This affects portfolio returns. Even when we are very positive about the US equities that make up much of the MSCI World, we must respect these limits. For example, one equity tracker can only make up 30% of the portfolio for Profile 5, no more. Although diversification is the best way to mitigate risk in a portfolio over the long term, it can result in somewhat lower short-term returns.
- Bonds went through a difficult year in 2024. The main bond indices delivered single-digit returns in 2024. As mentioned previously, high-yield bonds were among the best performers. In our Keyprivate portfolios, we were invested in the high-yield bond tracker all year. These bonds show a close correlation with European equity markets. As a result, they showed a price performance of just over 5%. Moreover, we found that investors had a general preference for risky investments over more defensive ones in 2024. We responded by investing in high-yield bonds for this component of our portfolios.
- Regarding the commodities component, the gold tracker contributed significantly to net returns. The commodities market had one big winner in 2024, and that was gold. In our Keyprivate portfolios, we invested mainly in gold, apart from during the summer and autumn months. The summer months showed signs of a resurgence in the price of copper, the main component of the industrial metals tracker. This took place at the same time as the signs to invest in emerging markets. Copper prices show a high correlation with stock markets in emerging countries such as China and India. We therefore took positions in industrial metals and emerging market stock markets during these months. However, as already stated, the price performance of these two asset classes was unconvincing in the following months, leading them to be sold again. This had a slight negative impact on the portfolios' returns. At the end of 2024, the commodities component of Keyprivate portfolios was dedicated to the gold price tracker.

2024	
Profile	Net
1	5,12 %
2	6,11 %
3	6,92 %
4	8,31 %
5	8,38 %
6	9,77 %
7	10,85 %
8	11,93 %
9	12,86 %
10	12,92 %

Table 7: Net returns for 2024 (31/12/2024)

Net returns 01/01/2016 – 31/12/2024										
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 %	6,92%
5 -Balanced	100	4,63 %	4,64 %	- 4,84 %	5,02 %	-1,92 %	12,37 %	-10,20 %	9,36 %	8,38%
7 - Dynamic	100	7,52 %	7,13 %	- 7,78 %	7,11 %	-1,44 %	15,12 %	-9,35 %	11,70 %	10,88%
10 - Very agressive	100	5,47 %	8,99 %	- 8,84 %	6,17 %	1,16 %	16,62 %	-10,85 %	14,06 %	12,92%

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

One of the most important developments on international equity markets, and the main trend our Keyprivate Investment Committee is monitoring, is the relative strength of US equities. As Figure 3 clearly shows, US equities have done much better than non-US equities over the past 10–15 years. More and more investors are wondering whether it still makes sense to invest in non-U.S. equities. We believe this pronounced positivity is a warning sign that a trend reversal is imminent. Nothing lasts forever on the stock markets and cycles come and go. In our opinion, the negativity currently affecting e.g. European and Chinese equities offers an interesting entry point for opportunistic and long-term investors. Our Keyprivate portfolios already include an exposure to European equities at present. We are monitoring our relative momentum indicators to see when it is time to reduce investments in US equities. While this is not yet the case, 2025 will undoubtedly be an interesting year as we watch out for a trend reversal making its way from US to non-US equities.

Figure 3: S&P 500 vs MSCI World ex USA index
Source : Bloomberg

After two strong years for stock markets, we can see many investors wondering whether the time has come to adopt a more defensive investment strategy. The answer is no. This opinion is based on such considerations as the following figure, which shows the relative strength of a defensive sector ('Consumer staples', or food and drink) compared to the broader US market (represented by the S&P 500 index). There has definitely been a distinct downward trend for several years now (even reaching historical lows in this figure), which simply means the defensive sector has not been performing as well as the broader market. This is a clear sign that investors are not switching over to more defensive equities en masse right now! As long as we do not see a clear trend reversal here, it currently seems advisable to prioritise more dynamic equity sectors such as technology.

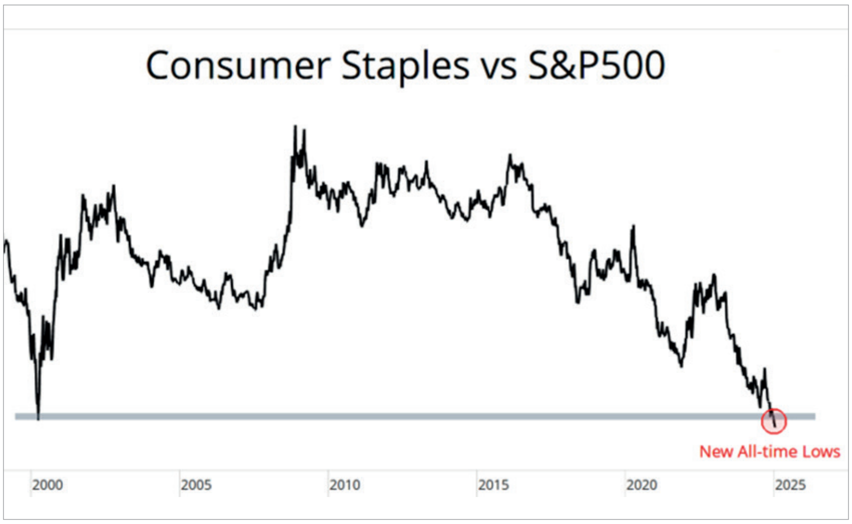

Figure 4: S&P 500 vs Food & Beverage Sector
Source: All Star Charts

We will end this quarterly report with a note on the commodities market. Gold has been an absolute star performer on international commodity markets in recent years. Many other more cyclical commodities, such as oil and copper, have lagged behind gold in their price developments. Perhaps 2025 is the year they will start catching up. Figure 5 shows a high correlation between the prices of gold and copper. Now that the price of gold has risen so sharply in recent years, we are just waiting for copper to follow its lead. The Keyprivate investment committee is monitoring developments closely. Copper weighs around 40% in the industrial metals tracker and if anything happens, this will cause a rotation from gold to industrial metals in the portfolios. Furthermore, we expect the energy transition to increase the demand for copper in upcoming years, creating more opportunities for long-term investors.

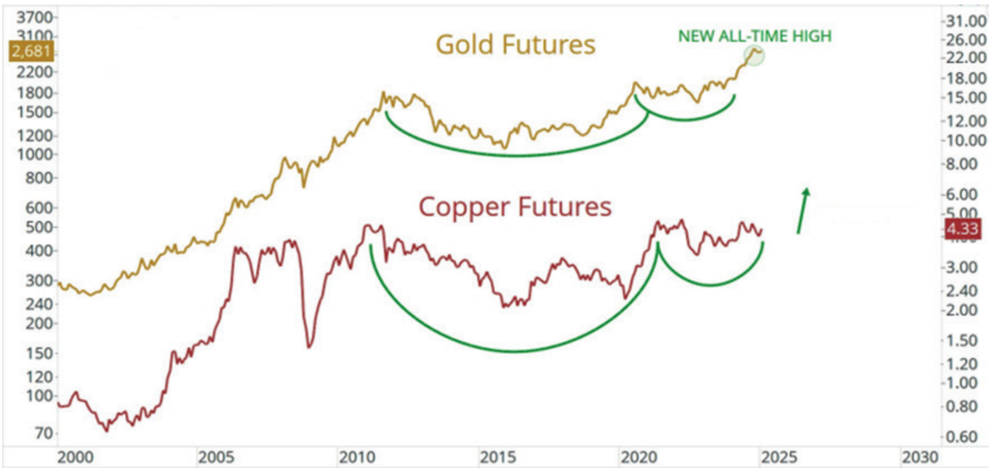

Figure 5: Gold - copper
Source: All Star Charts

Conclusion: The feared global economic recession failed to materialise. Nevertheless, Europe did not do all that well and acted as a brake on the international economy. The US economy was the most dynamic in 2024. We look forward to seeing if Europe manages to climb out of its economic dip in 2025 and boost European equity prices. Lower inflation figures have already led to interest rate cuts. Our Keyprivate portfolios once again achieved attractive net returns in 2024. Apart from a brief flirtation with emerging markets during the summer months, we mainly invested in the MSCI World and MSCI Europe trackers. Regarding bonds, we opted for high-yield bonds and for the commodities component, a rotation into industrial metals did not yield the desired returns over the summer. We therefore reinvested in the gold tracker. We are starting the new year of 2025 with dynamically composed portfolios and will be looking for opportunities in non-US equities and industrial metals.

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