KEYPRIVATE Quarterly Update

Q4 2023

With 2023 behind us, now is the time to take a look back and analyse the current economic and financial reality. The much feared global recession has still not (yet) materialised, and the financial markets had an excellent year. The last few months of 2023 were truly spectacular. In an environment where investors were showing a clear preference for risky assets, we achieved attractive net returns in line with the market for our Keyprivate portfolios. Almost all of the losses from 2022 were made up.

Geert Van Herck
Chief Strategist KEYPRIVATE

Economic environment

At the start of 2023, there was widespread pessimism among economists and stock market analysts, and a global economic recession seemed to be inevitable. In actual fact, the global economy held up well last year. In Figure 1, we can see that international manufacturer confidence showed a substantial increase in the first few months of 2023. This corresponds to an acceleration in economic growth. During the second half of the year, there was a decline. Twoards the end of 2023, however, a new recovery appeared to be gathering steam. In any case, by looking at the level of international manufacturer confidence at the end of 2023, we can extrapolate a growth rate of around 1.5% for the global economy. Not spectacular, but nowhere near a recession either. The only major economy that failed to grow in 2023 was China. Western industrialised countries were able to maintain positive growth thanks to the fall in inflation, which gave consumers in the West some financial breathing space.

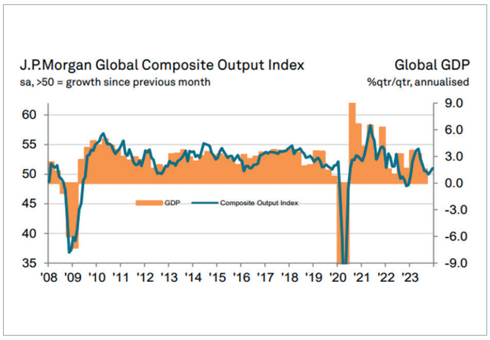

Figure 1: Trend in global manufacturing confidence and growth of the global economySource : S&P Global

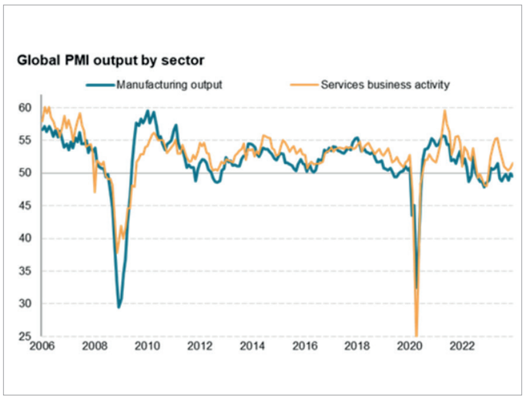

Figure 2: Trend in activity levels in the industrial and service sectors Source : JPMorgan, S&P Global

Figures 2 and 3 show some other graphs from the report on the trends regarding international manufacturer confidence. Figure 2 shows the trend in activity in the industrial and services sectors. Once again, we can see the same trend as for international manufacturer confidence: a recovery in the first half of the year followed by a decline in the second half. Figure 3 shows a regional breakdown for the Western industrialised countries and the emerging countries (China, Brazil, India, etc.). However, it is encouraging to see the first signs of a trend reversal at the end of 2023. We continue to observe that stock market trends have an impact on business confidence. For example, there was a correction on the stock markets from August until late October 2023. As a result, manufacturer confidence also peaked. However, the sharp recovery recorded by the stock markets in November and December last year now seems to be having a positive impact on business confidence. Always bear in mind that stock markets always move slightly ahead of economic activity. If the stock market rally in recent months continues, we can expect another recovery and an increase in international manufacturer confidence.

An undoubtedly positive development in 2023 was the fall in official inflation figures. Figure 4 shows the correlation between official inflation figures in Western industrialised countries and the trend in the sales prices of goods and services (these figures come from the international manufacturer confidence report). After coronavirus, there was a very sharp rise in inflation levels, driven by rapidly rising commodity prices. However, the international commodities market has also entered a corrective phase since summer 2022. Lower commodity prices mean lower costs for companies, with the result that they no longer need to pass on the higher commodity prices in their sales prices. The fall in inflation was an important economic factor in 2023: it led many economists and analysts to conclude that 2024 will be the year of interest rate cuts. After all, central banks around the world have raised short-term interest rates significantly since 2022 to tame inflation. They now appear to have achieved that goal. This is why an economic recovery is expected in 2024, supported by a more flexible monetary policy.

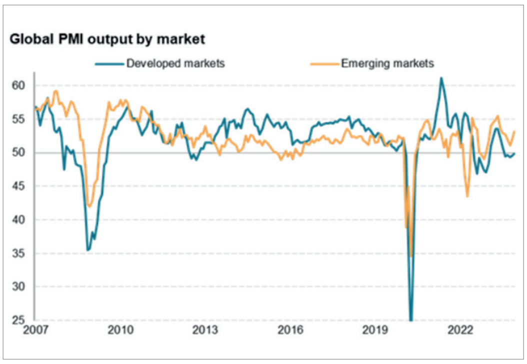

Figure 3: Trend in activity levels in industrialised and emerging countries
Source : JPMorgan, S&P Global

Conclusion: economically speaking, 2023 was a year of two halves. A strong first half followed by an economic downturn in the second half of 2023. However, the recession expected by many observers did not materialise, and this is definitely good news. We end 2023 with cautious optimism for 2024: it appears that the key confidence indices have stopped their downward trend and are aspiring to complete a trend reversal. As a result, we expect an economic recovery in 2024. The fall in inflation figures is a bonus, leading us to expect a more flexible monetary policy in the new year.

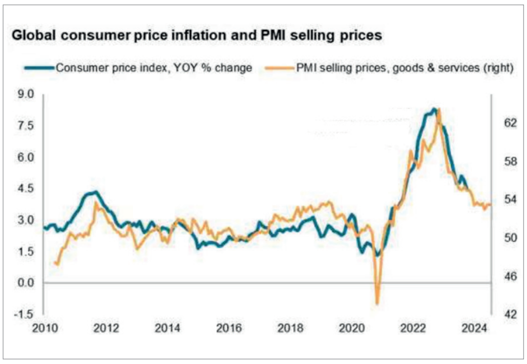

Figure 4: Trend in inflation numbers
Source : S&P Global

Financial markets Q4 2023

Equity markets

The last quarter of 2023 was very strong for equity investors. Although October was not such a strong month, prices did start taking off in November 2023. This was due to the US central bank's decision to stop raising short-term interest rates in the months ahead. This is the Federal Reserve's way of signalling that the period of monetary tightening is over. Investors have been looking forward to this, and therefore decided to build up their equity positions. As a whole, 2023 was a very good year for the major global stock markets: on average, the most important indices gained around 15–20%. This was thanks not only to the big technology stocks: numerous other cyclical sectors also performed well in 2023. These stock market performances are in stark contrast to analysts' expectations for the stock market last year. The very negative sentiment at the start of 2023 was one key reason behind this strong stock market performance. After all, if the vast majority are pessimistic, the chances of a trend reversal increase sharply! Our own BEL20 and the Chinese stock markets were the only non-attendees in the international stock market celebration.

Return on Keyprivate share trackers Q4 2023 (in EUR)	
MSCI World	5,92 %
MSCI Emerging Markets	3,25 %
MSCI Europe	6,38 %
MSCI Europe small caps	8,14 %

Table 1: Returns on Keyprivate share trackers Q4 – 2023 Source: Bloomberg

Return on Keyprivate share trackers 2023 (in EUR)	
MSCI World	20,14 %
MSCI Emerging Markets	7,85 %
MSCI Europe	15,99 %
MSCI Europe small caps	11,32 %

Returns on Keyprivate share trackers 2023 Source: Bloomberg

Bond markets

The international bond markets revived after their extremely negative year in 2022. That year was the worst year since the 1970s for bond investors! Sharply rising inflation figures followed by a very aggressive increase in short-term interest rates in the Western industrialised countries caused a bloodbath in the bond markets. For a long time, the trend on the Western bond markets continued downwards in 2023, until the US central bank decided there had been enough constant rises in short-term interest rates. Just as in the equity markets, there was a buyer's stampede from November 2023. The strong performance of the last quarter of 2023 delivered a positive annual return for government and high-yield bonds. High-yield bonds outperformed traditional government bonds because high-yield bonds move closely in step with the stock markets. They also involve rather more risk, and investors were certainly ready to add more risk to their portfolios in the last quarter of 2023.

Returns on Keyprivate bond trackers Q4 2023 (in EUR)	
Government bonds of the Euro zone	7,30%
high-yield bonds	6,17%

Table 2: Returns on Keyprivate bond trackers Q4 – 2023 Source: Bloomberg

Returns on Keyprivate bond trackers 2023 (in EUR)	
Government bonds of the Euro zone	6,32%
high-yield bonds	10,51%

Returns on Keyprivate bond trackers 2023 Source: Bloomberg

Commodity markets

The international commodity markets were subject to much wailing and gnashing of teeth. Due to the rather unencouraging trend in terms of published economic figures, fears of a recession were never far away from commodity investors' thoughts. There was therefore little incentive to invest in copper, oil or other cyclical commodities. This absence of buyers is, of course, also explained by the weakness of the Chinese economy in recent years. This country is a major consumer of commodities. The constant flow of negative economic news from China put a damper on enthusiasm for buying cyclical commodities. Gold was therefore one of the few positive outliers in the commodities market: the precious metal also "benefitted" from increasing international geopolitical tensions. The relative strength of gold compared to other commodities is also striking due to falling inflation figures in the West. Gold is often bought as a hedge against inflation. It is therefore striking that the price of gold is at historic levels despite a decline in the threat of inflation!

Returns on commodity trackers Q4 – 2023 (in EUR)	
Gold	6,52 %
Industrial metals	-0,59 %

Table 3: Returns on Keyprivate commodity trackers Q4 – 2023 Source: Bloomberg

Returns on commodity trackers 2023 (in EUR)	
Gold	9,77%
Industrial metals	-13,12%

Returns on Keyprivate commodity trackers 2023 Source: Bloomberg

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Net returns on Keyprivate portfolios in 2023

Table 4 shows the net returns achieved by our 10 Keyprivate profiles.
Some comments on the net returns for 2023:

- Equities performed very strongly in 2023. In our Keyprivate portfolios, we continued to invest as much as possible in equities in each profile. This means that each profile was always invested in equities up to its maximum weight. Despite the numerous warnings of a global recession, the Keyprivate investment committee kept investing dynamically, as our trend analysis continued to indicate rising trends. The portfolios were invested in the MSCI World and MSCI Europe trackers, with a slight overweight in the MSCI Europe tracker. These two trackers helped us benefit from the strongest shares in the technology sector (e.g. : Nvidia in the MSCI World tracker) and strong European shares such as Novo Nordisk and ASML.
- Bonds had another difficult year. Starting in the last few months of 2023, however, a trend reversal occurred, allowing us to end the year with positive performances. In the last quarter of 2023, the Keyprivate investment committee carried out a new rotation: the exposure to euro zone government bonds was reduced and investment was moved to a high-yield bonds tracker in the euro zone. Euro-denominated high-yield bonds are somewhat more risky, and closely follow European equities. This rotation was done in order to integrate investors' risk appetite at the end of 2023 into our portfolios.
- In the commodities segment, we invested in the gold price for most of the year. At the beginning of March 2023, the Keyprivate investment committee sold the industrial metals tracker in order to invest in the gold tracker. As a result, we benefited from the upward movement in the price of gold..
- One important comment on our net returns is that, excluding defensive and neutral profiles, all other profiles fully recovered the losses of 2022 in 2023.

2023	
Profile	Netto
1	4,63 %
2	6,02 %
3	7,38 %
4	8,81 %
5	9,36 %
6	10,17 %
7	11,69 %
8	13,26 %
9	14,02 %
10	14,06 %

Table 4: Net returns 2023 (31/12/2023)

Net returns 2023 (01/01/2016 – 31/12/2023)									
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 %	7,38 %
5 - Balanced	100	4,63 %	4,64 %	- 4,84 %	5,02 %	-1,92 %	12,37 %	-10,20 %	9,36 %
7 - Dynamic	100	7,52 %	7,13 %	- 7,78 %	7,11 %	-1,44 %	15,12 %	-9,35 %	11,70 %
10 - Very agressive	100	5,47 %	8,99 %	- 8,84 %	6,17 %	1,16 %	16,62 %	-10,85 %	14,06 %

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

The explosive rally on the international equity and bond markets at the end of 2023 illustrated investors' appetite for risk. In these circumstances, it is not advisable to invest too defensively. Figure 5 gives a simplified picture of the current environment: this graph shows the relative performance of shares compared to bonds. A rising (falling) trend indicates that equities are performing better (worse) than bonds. It should be clear that at the end of 2023, this figure shows historical records. Once again, this indicates that investors currently prefer risk (equities) or overweight in their portfolios and that defensive instruments (such as bonds) are out of favour with investors. This financial environment is also reflected in our Keyprivate portfolios: we started 2024 with equity trackers such as the MSCI World tracker (with a large exposure to US technology shares) and the MSCI Europe Small Cap tracker (smaller shares with a little more risk). For bonds, we have opted for high-yield bonds from the euro zone.

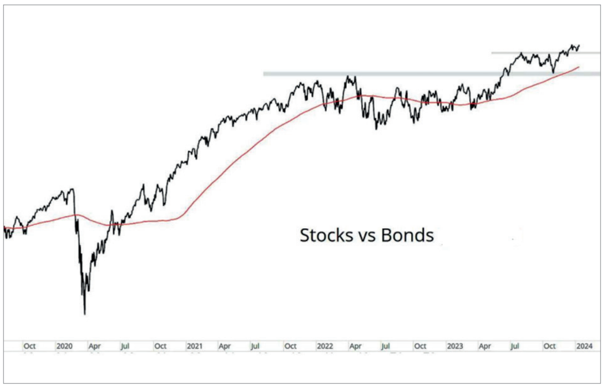

Figure 5: Equities vs bonds (US) *Source: All Star Charts*

Figure 6: Defensive equities vs. S&P 500 (US) *Source: All Star Charts*

A further illustration of the fact that investors are clearly choosing more risky instruments over more defensive ones can be seen in Figure 6. This shows two views of the US stock market. First, we see the relative performance of the defensive food and beverage sector compared to the broader S&P 500 index. Food and beverage stocks often do better when investors are feeling anxious or defensive. These stocks are considered defensive because consumers will always continue to eat and drink, even in times of recession. It is clear to see that this defensive sector underperformed compared to the S&P 500 throughout 2023. The S&P 500 is dominated by more cyclical technology giants such as Nvidia, Apple and Microsoft. These are shares that were much more in favour than defensive food stocks! The second figure shows equities that display low volatility behaviour compared to the S&P 500. These "low volatility" shares are traditionally large companies from the food and beverage sector mentioned above, but this group also includes many major pharmaceutical companies (such as Johnson & Johnson). We can again see the same message from this trend: the more stable shares are not in demand and are underperforming compared to the broader S&P 500 index.

Finally, let's take another look at the international commodities market. Figure 7 shows the close link between international manufacturing confidence in the industrial sector and the performance of the S&P Goldman Sachs Commodities index, a benchmark index for the commodities market. The clear decline in confidence in the industrial sector has the side effect of underperformance by more cyclical commodities such as oil and copper. As we already stated above, gold is one of the very few outliers in the international commodities market. In 2024, the Keyprivate Investment Committee will mainly be looking at whether the expected interest rate cuts will have an impact on the international commodities market. This is because interest rate cuts are sure to boost economic growth, which in turn is certain to increase demand for commodities. Providing gold continues to outperform industrial metals (where we can also invest in our commodities section), we will not rotate into more cyclical metals such as copper and zinc.

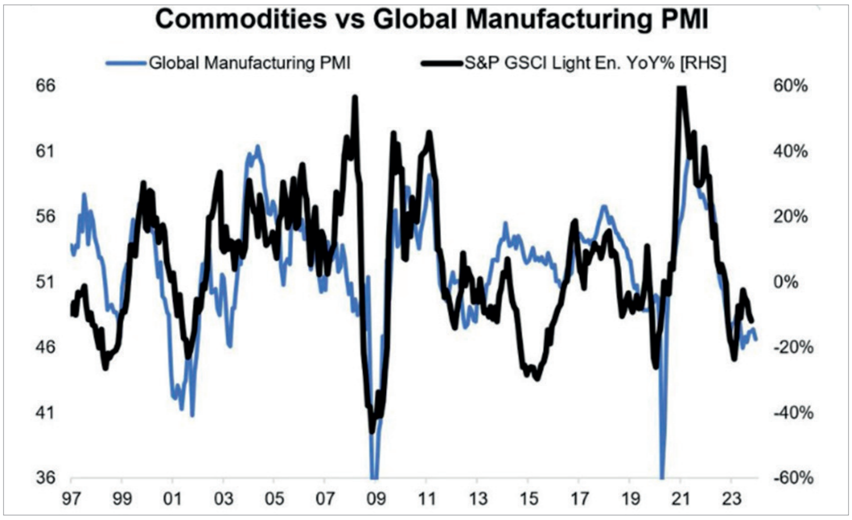

Figure 7: Commodities vs manufacturing confidence in the industrial sector *Source : Topdown Charts*

Conclusion: 2023 was not a top year in economic terms. The global economy clearly weakened in the second half of 2023. However, we experienced a continuous fall in inflation figures in 2023, which is why the financial markets are expecting interest rate cuts by the major Western central banks in 2024. Our Keyprivate portfolios certainly performed in line with the market in 2023, and most portfolios were able to make up their losses from 2022. The financial markets had a particularly strong end to 2023, with sharply rising share and bond prices. Only the commodity markets did not join in the party. Only the price of gold price was a rare positive outlier. We are closing 2023 with a dynamic portfolio mix that reflects investors' widespread risk appetite.

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