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KEYPRIVATE Quarterly Update

Q1 2024



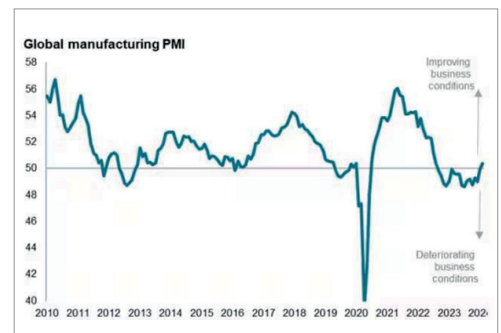
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The first quarter of 2024 has come to an end and to say it was a surprising one is no understatement. Why? First, there were more and more signs indicating that the global economy was regaining momentum rather than slowing down (as predicted by many economists). Second, the stock markets performed very well and it proved to be a difficult environment for bond investors (long-term interest rates rose against all expectations). Third, higher commodity prices raised inflation fears again, which meant there will be fewer interest rate cuts than initially expected in 2024. In short, we can already discard the forecasts made at the end of 2023. In this environment, the Keyprivate portfolios delivered the right net returns.

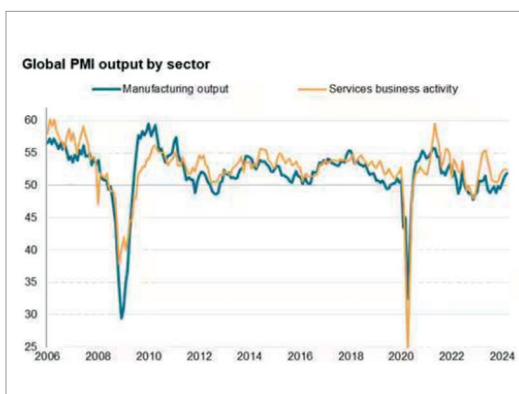
This quarterly report gives an overview of the various developments.

Economic environment

Each month, the Keyprivate investment committee takes a close look at the monthly figures on the trend in global manufacturing confidence. This month's trend shows a clear improvement in the global economy. Graph 1 shows the current trend in global manufacturing confidence in the industrial sector. This is the most cyclical sector that instantly measures any changes in the state of the global economy, as the services sector tends to be more locally driven than globally. Graph 1 clearly indicates a trend reversal: after years of ever lower levels, we are now seeing higher levels month after month. An important sign also emerged: the Global Manufacturing PMI broke above the 50 mark again. This indicates an expanding industrial sector after the recent contraction. This is an important development.



Graph 1: Trend in global manufacturing confidence in the industrial sector - Source : S&P Global



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

Graph 2 shows the trend in output in both the services and industrial sectors. As we mentioned above, this sector is somewhat less exposed to the whims of the global economy. It includes accounting firms and supermarkets, which remain necessary even when the economy takes a downturn. The graph paints a clear picture: the services sector is also on the up again. In short, if you take a closer look at the most important economic indicators today, you can see is that the global economy is returning to growth and expansion after a period of slowdown. Based on these economic indicators, the recession expected by economists at the end of last year is no longer on the cards in some countries or regions.

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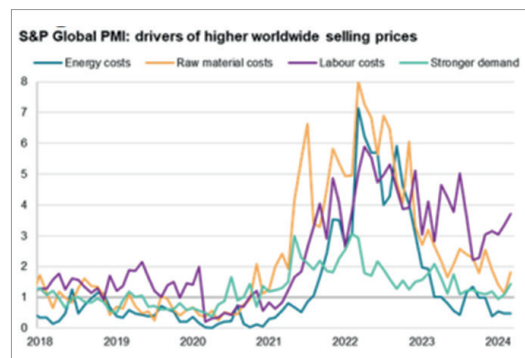
The monthly report on the trend in global manufacturing confidence revealed another indicator that the Keyprivate investment committee sees as very positive: the trend in companies' order books. They are companies' new orders to be manufactured in the coming weeks and months. If this indicator rises, this means more manufacturing in the near future, which will in turn benefit global economic growth. Graph 3 also shows that business managers are optimistic about the coming months: the orange line shows business managers' expectations for the manufacturing trend in the near future. This has also improved recently. This optimism may mean that companies will invest and create jobs again. In short, this is a positive development and certainly not the image of a weak global economy.

Of course, an expansion phase for the global economy goes hand in hand with higher commodity prices. In the first quarter, we saw higher prices for many commodities, such as oil, copper and cocoa. This rise in commodity prices inevitably translates into higher prices for goods and services. After all, companies are going to pass on their higher commodities costs to their customers, resulting in a general price increase. In Graph 4, we can already see the costs of energy and other cyclical commodities rising. These are the elements that are driving up inflation. Consequently, the financial markets now expect fewer interest rate cuts. At the start of the year, investors and fund managers were still expecting around 6 to 7 rate cuts of 0.25% in the US. At the end of the first quarter, they expected just 3 rate cuts of 0.25%.

Conclusion: the first quarter has confirmed the resurgence of the global economy. The confidence indicators monitored by the Keyprivate investment committee show a reversal from a growth slowdown to a recovery in economic activity. This is particularly positive news. In conjunction with this, we also saw commodity prices recover in the first quarter of this year. These higher costs for companies are again increasing inflationary pressures, which resulted in a scaling down of expectations of aggressive interest rate cuts by the Western central banks.



Graph 3: Trend in new orders and business confidence in the future
Source : JPMorgan, S&P Global



Graph 4: Trend in inflation
Source : S&P Global

The financial markets in Q1 2024

Equity markets

If we look at the returns of equity trackers in Table 1, we can only conclude that the stock markets have had an excellent first quarter. Of course, this is hardly surprising at a time when the global economy is emerging out of the trough on a growth trajectory. After all, economic growth boosts the turnover and profit development of listed companies. Driven by the US technology sector, the MSCI World tracker once again turned out to be a very good investment. The performance of the US stock exchange was again one of the best in the world, along with the Japanese stock exchange. At the start of the year, investors were expecting interest rate cuts by the Western central banks as well as an economic recovery. Higher commodity prices and fears of higher inflation in the future have put a dampener on things for many investors. Nevertheless, the absence of interest rate cuts was not enough to spoil the celebratory atmosphere on the global stock markets.

Return on Keyprivate share trackers Q1 2024 (in EUR)	
MSCI World	11,79 %
MSCI Emerging Markets	5,13%
MSCI Europe	7,83 %
MSCI Europe small caps	4,68 %

Table 1: Returns on Keyprivate equity trackers in Q1 2024
Source: Bloomberg

Bond markets

Despite the fact that 2024 started with high hopes of interest rate cuts by the Western central banks and lower long-term interest rates, things went very differently for bond investors. Hope of rapid rate cuts by the US and European central banks did not materialise as the global economic recovery began. Most importantly, the most important economic figures were stronger than previously expected by the financial markets, which meant that central bankers were not in any hurry to cut short-term interest rates. That is because the global economy does not need the fuel that lower interest rates will provide right now. In addition, oil and copper prices rose, which increased the risk of inflation. Such higher inflation figures are a risk for bond investors because of devaluation. Consequently, bond investors demand higher interest rates to compensate for this risk of loss of purchasing power. This resulted in weak yields for bond investors in Q1 2024. The returns in Table 2 clearly show returns between -1% and +3% for the various bond classes.

Returns on Keyprivate bond trackers Q1 2024 (in EUR)	
Government bonds of the Euro zone	-0,66%
high-yield bonds	0,04%

Table 2: Returns on Keyprivate bond trackers in Q1 2024
Source: Bloomberg

Commodity markets

The rise in commodity prices was one of the most unexpected developments in Q1 2024. The global economy's recovery pushed up the prices of the most important commodities. This is not immediately apparent from Table 3, but industrial metals do show a strong recovery at the end of the quarter. At the end of the first quarter, however, there was one clear winner on the global commodities market: the gold price. The gold price benefited from the geopolitical tensions and expected interest rate cuts by Western central banks (lower interest rates make bonds less attractive and gold more attractive). It also became clear in the first quarter that the higher commodity prices will be reflected in higher consumer prices in the future. Investing in gold can also act as a strong inflation hedge.

Returns on commodity trackers Q1 2024 (in EUR)	
Gold	9,92 %
Industrial metals	-1,65 %

Table 3: Returns on Keyprivate commodity trackers in Q1 2024
Source: Bloomberg

Net returns of Keyprivate portfolios in Q1 2024

Table 4 shows the net returns achieved by our 10 Keyprivate profiles. Some observations on the net returns in Q1 2024:

- Equities showed an excellent performance in Q1 2024. Despite the geopolitical difficulties, higher inflation figures and further postponement of the first interest-rate cuts in the US and Europe, equity investments generated attractive returns in Q1 2024. The key positions in the Keyprivate portfolios were the MSCI World tracker and European small cap tracker (small-cap stocks). This last tracker did not do well in January and February (compared to European large-cap stocks). This cost us some net return, so the Keyprivate investment committee decided to reduce our exposure by 50% at the end of February. The proceeds of this sale were invested in the MSCI Europe tracker. The expectation that European small caps will outperform European large caps in the event of an economic recovery has not yet been realised. If European small caps continue to underperform, we will not hesitate to sell the remaining exposure to invest more in European large caps.
- Poor bond returns in Q1 2024. Although there was a lot of bond optimism at the start of the new year, it turned out that bonds did not perform well in Q1 2024. We know the reasons: the economic recovery, higher commodity prices and expected higher inflation. In this environment, long-term interest rates rose rather than fell. In this environment, we chose the high yield bonds tracker because it has a high correlation with the equity markets. Perhaps more importantly, its duration (measure of bond interest rate sensitivity) is lower than the eurozone government bonds tracker.
- In the commodities segment, we invested in gold. The commodities market experienced a healthy recovery in Q1 2024. Gold in particular excelled and the price of gold reached record new highs. In total, 10% (profiles 1 – 5) to 15% (profiles 6 – 10) of our Keyprivate portfolios were invested in gold. It goes without saying that this investment in gold made a significant contribution to the net returns of Q1 2024

2024	
Profile	Netto
1	1,25 %
2	2,11 %
3	3,03 %
4	3,94 %
5	4,18 %
6	5,45 %
7	6,32 %
8	7,22 %
9	7,81 %
10	7,84 %

Table 4: Net returns for Q1 2024
(31/03/2024)

Net returns (01/01/2016 – 31/03/2024)

profile		2016	2017	2018	2019	2020	2021	2022	2023	2024
3 - Very defensive	100	2,37 %	2,24 %	- 6, 65 %	4,90 %	-1,90 %	10,29 %	-10,10 %	7,38 %	3,03%
5 - Balanced	100	4,63 %	4,64 %	- 4,84 %	5,02 %	-1,92 %	12,37 %	-10,20 %	9,36 %	4,18%
7 - Dynamic	100	7,52 %	7,13 %	- 7,78 %	7,11 %	-1,44 %	15,12 %	-9,35 %	11,70 %	6,32%
10 - Very aggressive	100	5,47 %	8,99 %	- 8,84 %	6,17 %	1,16 %	16,62 %	-10,85 %	14,06 %	7,84%

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 sentiment on the financial markets remains predominantly positive. The economic recovery investors have seen since January 2024 has attracted them to less defensive investments. This is also evident in Graph 5, which compares higher-risk investments (such as copper, semiconductor stocks and the Australian dollar as a commodity currency) to more defensive investments (such as US government bonds, gold and the Japanese yen, which has long been considered a safe haven). 2021 and 2022 were particularly good years for more defensive investments, but since 2023 we have seen a surge in global investors adding more risk to their investment portfolios. In short, fighting the dominant upward trend in this environment is not a good strategy. Although we are not ruling out any annually recurring stock market corrections, a structurally defensive investment policy is not an option at the moment. This is why we are keeping the Keyprivate portfolios dynamically invested at the end of Q1 2024.



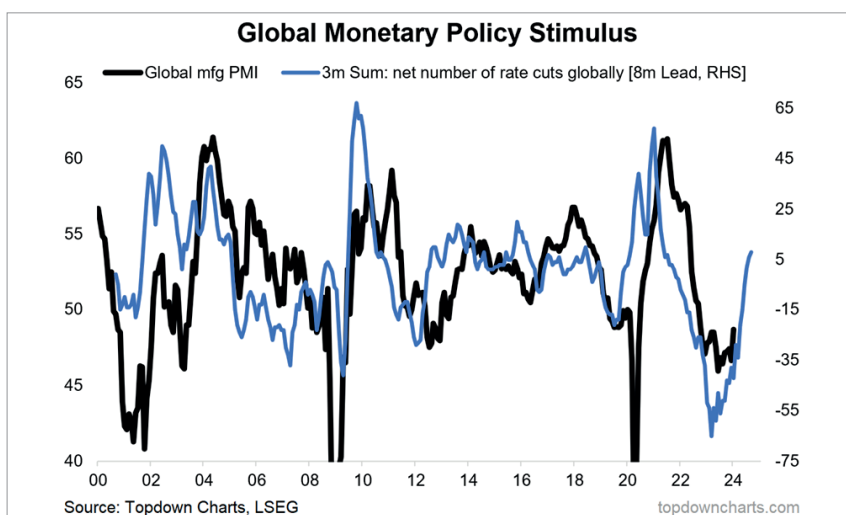
Graph 5: Higher-risk investment to lower-risk investment ratio

Source: All Star Charts

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In their outlook for 2024, the vast majority of economists, stock market strategists and fund managers were convinced of a drastic change in the monetary policy of the US and European central banks. They expected a lot of rate cuts. However, against all expectations, the European ECB and US Federal Reserve have not yet cut short-term interest rates. Nevertheless, the Keyprivate investment committee continues its stance: only the pace will be somewhat slower than initially expected. A number of countries have already lowered their short-term interest rates. This naturally has an impact on the growth expectations for global industrial manufacturing. Graph 6 shows the link between the trend in global manufacturing confidence in industry (black line) and the number of rate cuts globally (blue line). Since the end of 2023, the number of rate cuts has risen sharply worldwide. We therefore expect a further increase in manufacturing confidence in industry. This is only logical: interest rate cuts give the economy oxygen as they make borrowing to invest in new production capacity cheaper. Once again, this is an argument for not being too pessimistic about the near-term economic future.



Graph 6: Global monetary policy
Source : All Star Charts

Conclusion: Q1 2024 has been a predominantly positive quarter. The quarter was characterised by economic recovery, rising stock markets and rising commodity prices. The expected interest rate cuts by the US and European central banks didn't happen, which put a dampener on things for bond investors. Bonds were the worst-performing asset class in Q1 2024. The Keyprivate investment committee's investment strategy was in line with the general optimism of investor sentiment. The focus for the coming months will remain on the position in European small caps. Historical research shows that these stocks traditionally do well when the global economy is heading for a comeback. This hasn't happened until now, which means this position has cost us some return compared to some other players. The Keyprivate investment committee will decide shortly whether to hold or sell this position.

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