KEYPRIVATE Quarterly Update

Q3 2024

At the end of Q3 2024, we once again note that the global economy continues to be lagging behind. Industry is continuing to return a moderate performance, while the services sector is doing better. In the US, economic growth remains at a higher level than in the eurozone. While it would be reasonable to assume that investors wouldn't be keen on a sputtering global economy, this has proven not to be the case so far. The stock markets are still doing well, supported by increasingly accommodating monetary policies in the US and Europe. In this challenging environment, our Keyprivate portfolios continue to perform well, generating net returns in line with the market. Below is an overview of the most important developments in the third quarter.

Geert Van Herck
Chief Strategist KEYPRIVATE

Economic environment

Q3 2024 confirmed a trend that we had been observing for some time – a clear divide between economic activity in the industrial and service sectors. While the services sector is expanding, we are seeing a sharp decline in economic activity in the industrial sector. This divergent trend cannot last, however, as both sectors depend on each other – a growing industrial sector creates higher demand for services such as software applications, transport and HR services. One explanation put forward by some economists is that the services sector continues to grow due to investments in artificial intelligence. Only time will tell whether this explanation is true. However, at present we firmly believe that a recovery in industrial manufacturing is necessary to help the global economy to grow further. Against this backdrop, the Keyprivate Investment Committee is also looking at China to see whether Chinese growth will resume and, in turn, bring about a recovery in industrial activity. We are also keen to see whether the interest rate cuts brought in by Western central banks will boost economic activity. We will certainly be keeping a close eye on both of these points.

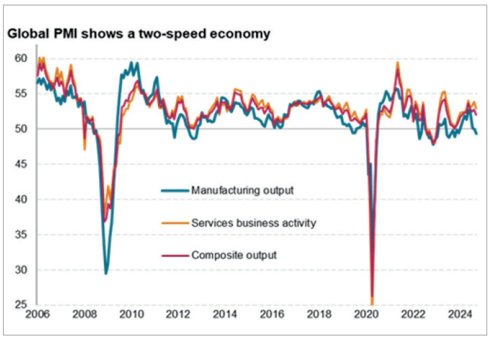

Figure 1: Trend in economic activity
Source : S&P Global

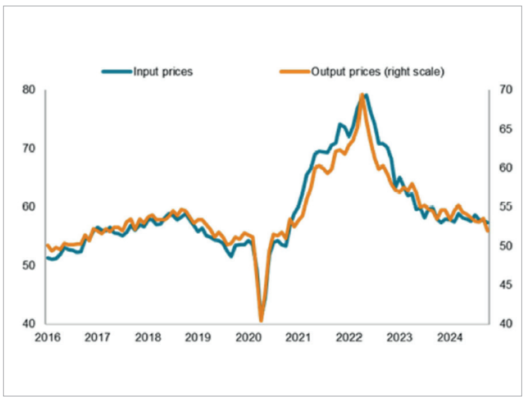

Figure 2: Trend in inflation
Source : S&P Global

It goes without saying that a slowdown in the industrial sector also has an impact on the trend seen in inflation figures in Western industrialised countries. After all, lower industrial manufacturing is putting downward pressure on commodity prices, which are the most important parameter for the trend in inflation figures. It therefore comes as no surprise that the reduced activity seen in industry translates into less demand for cyclical commodities such as oil, copper and zinc. Despite geopolitical tensions, we are not seeing an upturn in the oil price (which remains the commodity with the greatest impact on inflation figures). Figure 2 shows a downward trend in both the purchase («input») and sales («output») prices. This favourable trend is already causing the central banks in both the US and the eurozone to cut short-term interest rates in order to provide an ailing economy (particularly in the eurozone) with additional oxygen.

Conclusion: Divergence remains the keyword when discussing the health of the global economy. The industrial sector is trending downwards, while activity in the services sector remains at a good level. This divergence will undoubtedly have to disappear in the coming months, as both sectors are closely interlinked. In the months ahead, we will definitely be able to establish whether the interest rate cuts by the Western central banks will have a positive impact on industry and/or whether China's recovery plans can boost growth. In terms of inflation, there is a favourable downward trend that is allowing Western central banks to implement further rate cuts. At the end of Q3, the Keyprivate Investment Committee was slightly positive about the economic trend moving forwards. We are not in favour of a recession scenario.

Financial markets in Q3 2024

Equity markets

In contrast to historical figures, the third quarter proved a positive one for equity investors. If we look back over time, the period from July to September often shows negative returns for the international equity markets. In this light, 2024 has certainly been encouraging for equity investors. Two factors have contributed to these positive returns. First, Western central banks cut short-term interest rates to give the economy added oxygen. Investors have taken advantage of these rate cuts to buy shares, given that an economic recovery is anticipated in 2025. It is important to keep in mind that the stock markets always look three to six months ahead, which explains why the German stock market, for example, is at record levels while the German economy is struggling. Second, China is taking a range of measures to get the local economy back on its feet. A recovery in the Chinese economy could provide an additional boost to the global economy.

Stock tracker returns in Q3 2024 (in EUR)	
MSCI World	1,33%
MSCI Emerging Markets	3,35%
MSCI Europe	2,43 %
MSCI Europe small caps	4,53 %

Table 1: Returns on Keyprivate equity trackers in Q3 2024
Source: Bloomberg

Stock tracker returns Q3 2024 (in EUR)	
MSCI World	17,89%
MSCI Emerging Markets	15,17%
MSCI Europe	12,00%
MSCI Europe small caps	10,93 %

Table 2: Returns on Keyprivate equity trackers in 9M 2024
Source: Bloomberg

Bond markets

Following the equity markets, bond investors also enjoyed a good third quarter in 2024. Long-term rates fell in most regions leading up to the meetings of the US and European central banks in September 2024, which explains the strong performance of government bonds in both the US and the eurozone (close to +4% in the eurozone). The fall in interest rates also explains the lower inflation and growth figures seen in the main economic regions. The attractive return on high-yield bonds (a return of just over 3%) is closely linked to the returns on the international equity markets. This bond category shows a very close correlation to the stock markets and is often included in portfolios if investors want a more dynamic portfolio. After all, risk continues to be preferred over more defensive investments on the financial markets.

Bond tracker returns Q3 2024 (in EUR)	
Eurozone government bonds	3,87%
high-yield bonds	3,12%

Table 3: Returns on Keyprivate bond trackers in Q3 2024
Source: Bloomberg

Bond tracker returns 9M 2024 (in EUR)	
Eurozone government bonds	1,77%
high-yield bonds	3,70%

Table 3: Returns on Keyprivate bond trackers in 9m 2024
Source: Bloomberg

Commodity markets

In Q3 2024, gold confirmed that it is one of the best investments this year and even yielded a larger return than an investment in a diversified equity tracker (such as the MSCI World tracker) at the end of September 2024. Even so, we cannot ignore the geopolitical tensions that are causing investors to add gold to their portfolios. One important explanation for the rise in gold prices, however, is the purchase of gold by some Asian central banks and others. China is often quoted as a major buyer on the gold market month after month. What's more, there does not yet appear to be an influx of individual investors in gold. An analysis of the cash flows to trackers investing in gold, for example, does not show a significant rise in private demand for gold. That said, the gold price could be driven up even further if private investors acquire or increase positions in gold. With a return of just over 9%, industrial metals continued to perform well this year, though their performance lagged behind somewhat due to weaker economic growth figures. However, they recovered from August due to interest rate cuts and the prospect of a stronger economy in 2025.

Commodity tracker returns in Q3 2024 (in EUR)	
Gold	8,70%
Industrial metals	2,02%

Table 5: Returns on Keyprivate commodity trackers in Q3 2024
Source: Bloomberg

Commodity tracker returns in 9M 2024 (in EUR)	
Gold	26,35 %
Industrial metals	7,09 %

Table 6: Returns on Keyprivate commodity trackers in 9M 2024
Source: Bloomberg

KEYPRIVATE
Next generation portfolio management

Net returns for Keyprivate portfolios over the first nine months of 2024

Table 7shows the net returns achieved by our 10 Keyprivate profiles.

Below are some observations on the net returns in the first nine months of 2024:

• Shares made a significant contribution to the attractive net returns in the first nine months of 2024. In Q3, the Keyprivate portfolios were invested in the MSCI World and MSCI Europe trackers. The portfolios also held a position in the MSCI Emerging Markets tracker (the stock markets of emerging countries such as China, India, Brazil and so on) during July and August. The latter was sold in early September because the Keyprivate Investment Committee saw that the MSCI World tracker had been generating a better performance. Unfortunately, the MSCI Emerging Markets tracker performed strongly in September. We are currently looking at whether we can re-invest in this tracker in the future.

• Bonds rose in Q3 2024. Expectations of interest rate cuts in Western industrialised countries led to an upward trend during the summer months. In the bond segment, we have been investing in the tracker that follows high-yield bonds since the start of 2024. As this tracker closely follows the trends on the international equity markets, the price performance has been far better than traditional government bonds since early 2024.

• In the commodities segment, we missed out on part of the return due to the investment in industrial metals. At the beginning of July, the members of the Keyprivate Investment Committee decided to invest in the tracker that follows the prices of industrial metals such as copper and zinc. At that time, all of our indicators pointed towards industrial metals rather than gold. However, this only turned out to be a short-term option, as the price performance was disappointing in the weeks that followed. We decided to sell half of the position and return to the gold tracker at the end of August, as gold has proven itself to be a top investment this year. We are currently considering whether to sell the remaining position in industrial metals so as to invest the maximum weighting (10-15%) in gold in the commodities segment.

2024	
Profile	Net
1	3,83 %
2	4,72 %
3	5,59 %
4	6,73 %
5	6,99 %
6	8,14 %
7	9,08 %
8	10,07 %
9	10,68 %
10	10,74 %

Table 7: Net returns over the first nine months of 2024 (30 September 2024)

Net returns 1 January 2016 – 30 September 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 %	5,59%
5 -Balanced	100	4,63 %	4,64 %	- 4,84 %	5,02 %	-1,92 %	12,37 %	-10,20 %	9,36 %	6,99%
7 - Dynamic	100	7,52 %	7,13 %	- 7,78 %	7,11 %	-1,44 %	15,12 %	-9,35 %	11,70 %	9,08%
10 - Very agressive	100	5,47 %	8,99 %	- 8,84 %	6,17 %	1,16 %	16,62 %	-10,85 %	14,06 %	10,74%

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 main contradictions that we are currently seeing on the US stock market is the contrast between the S&P 500 and US consumer confidence (measured by a well-known barometer such as the University of Michigan Consumer Sentiment Index). Figure 3 shows the US stock market trading at record levels, while the average American holds a more pessimistic outlook. The chart clearly shows that buying in times of significant pessimism (when the University of Michigan Index is very low) is a worthwhile strategy and confirms what we already know from sentiment analysis: when pessimism is rife, opportunities abound on the stock market. It is therefore remarkable that the current impressive performance shown by the US stock market does not translate into optimism for average Americans. This tells us that room remains for further price climbs on the US stock markets, as it is far too early to start talking about a sense of 'euphoria' among the population.

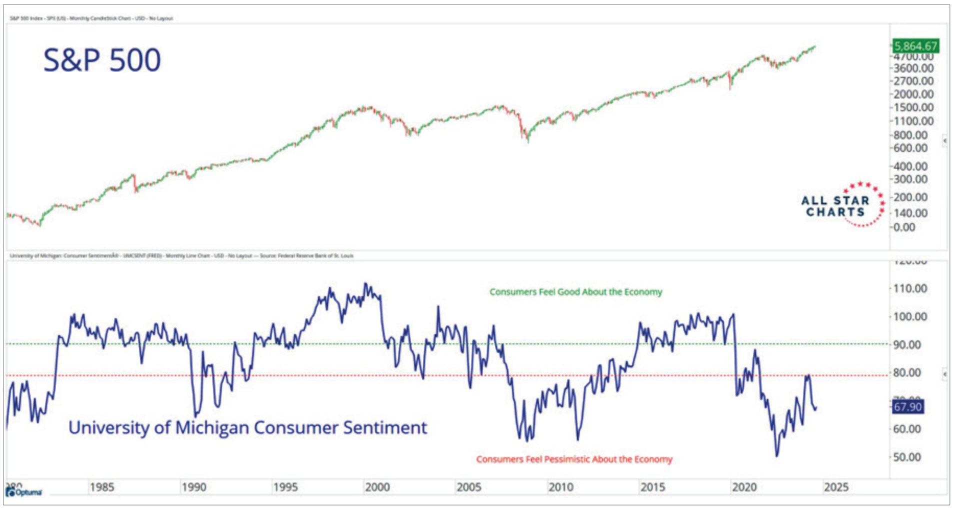

Figure 3: S&P 500 vs US consumer confidence
Source : All Star Charts

As well as the sentiment analysis mentioned above, another reason why we remain keen on shares at this time is broader participation on the US market. You may recall there was a large number of 'complaints' in the first half of the year that any gains seen on the US stock market were mainly due to a limited number of very large technology companies (the «Magnificent 7» of Apple, Microsoft, Amazon, Alphabet (Google), Tesla, Nvidia and Meta (Facebook)). While this analysis proved correct, in recent months we have also seen that the remaining 493 shares in the S&P 500 performed better in relative terms (see bottom chart in Figure 4). This is a welcome development, as it means there is rotation to other shares – an important characteristic of a rising market.

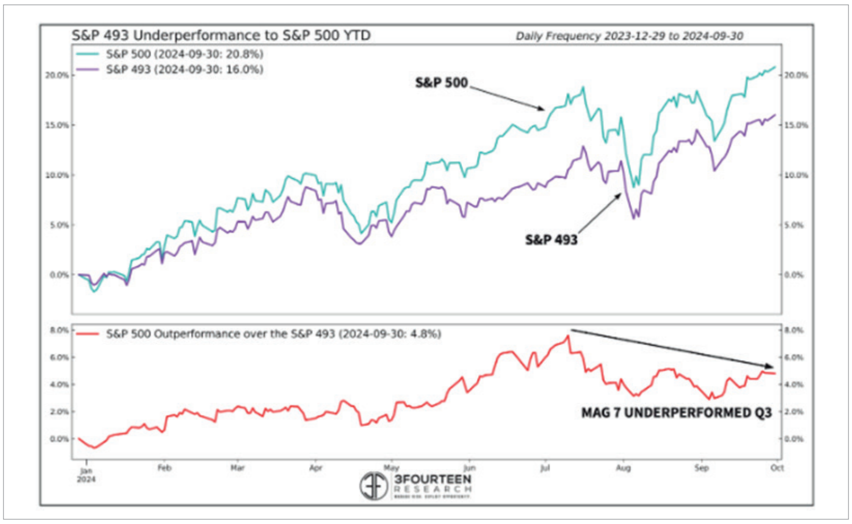

Figure 4: S&P 500 «Magnificent 7 vs Other 493»
Source: 3Fourteen Research

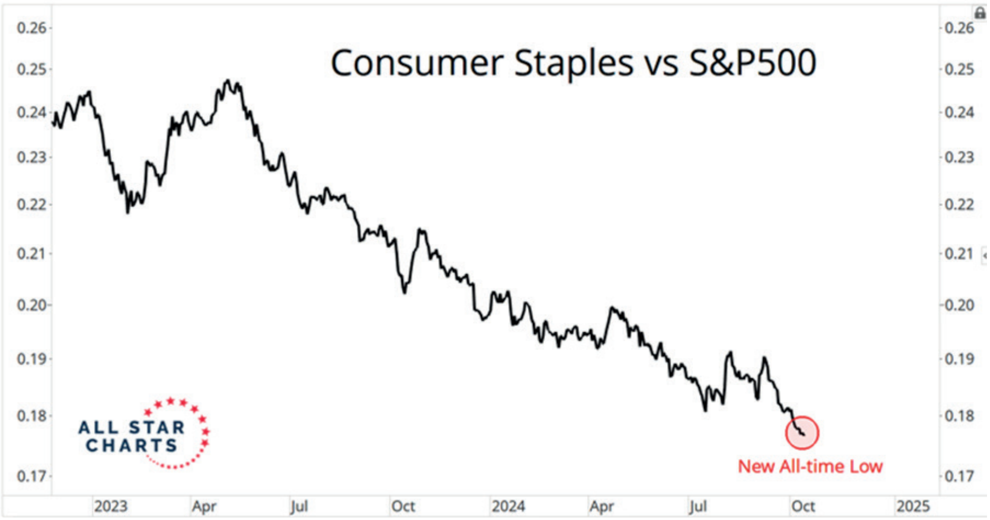

Figure 5 : Source: All Star Charts

A final chart that supports our positive view of the stock markets shows that there is no flight to defensive sectors at this time. Figure 5 shows the relative performance of defensive shares from the food and beverage sector compared to the broader market. When the international equity market experiences a correction or downward trend, we often see this sector show that it is relatively resilient, as consumers continue to buy food and beverages in times of crisis. This enables companies in this sector to maintain their turnover and profits. As a result, many equity analysts look at the relative performance of this sector. If this sector starts to outperform the broader market, that is often an indication of a falling market. Now, however, we are seeing the opposite, as defensive food and beverage shares returned significantly weaker performance than the broader equity market (suggested by the S&P 500). Once again, this confirms that investors are opting for an offensive strategy, and most certainly do not want to take a defensive approach to their investments. In addition to the arguments mentioned above, this is yet another reason why the Keyprivate Investment Committee remains positive about equity investments.

Conclusion: In economic terms, the global economy is not doing particularly well. The industrial sector is struggling and the services sector is continuing to prop it up. We expect to see a recovery in industry over the months ahead as we move towards a healthier economy. We are, however, seeing a favourable trend when it comes to inflation, which continues to fall and offers Western central banks the opportunity to lower short-term interest rates to support the economy. Despite disappointing growth figures, the stock markets delivered good returns in Q3 2024. Investors are already anticipating an economic recovery in 2025. In this environment, an investment in our Keyprivate portfolios yielded a return in line with the market. Investing in cyclical industrial metals, however, turned out to be a poor choice during the summer months. For Q4 2024, Keyprivate's Investment Committee remains positive with regard to the stock markets. While sentiment is certainly not euphoric, there is broader participation in the stock market rise and investors are certainly not taking a defensive approach.

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