KEYPRIVATE Quarterly Update

Second quarter 2022

The second quarter of 2022 was one best rapidly forgotten. High inflation figures and fears of an imminent recession caused many investors to run to the exit. In addition, the US central bank stepped hard on the brakes by raising short-term interest rates sharply. An environment in which the stock markets turned blood red, bonds were dumped and the commodity markets also crashed. It will be no surprise to anyone that the net returns of our Keyprivate portfolios at the end of the second quarter were also in the red. This quarterly update brings you an overview of the most important events.

Geert Van Herck

Chief Strategist KEYPRIVATE

Economic environment

The slowing down of economic growth was an important issue for investors in the second quarter of 2022. Looking at the trend in global manufacturing confidence (as expressed in the JPMorgan Global Manufacturing index) we see a slowdown in growth in industry since mid-2021. We do not find this slowdown illogical: after the very strong and rapid recovery of the global economy since mid-2020, cooling off is only logical. And bear in mind that many industrial sectors are faced with supply problems that are limiting industrial production. A typical example is car production in Germany: because the supply of semiconductors from the Far East is still disrupted, some car factories are at a standstill. This obviously has knock-on effects for other sectors that depend on the automotive industry (e.g. transport companies, steel manufacturers, etc.). Nevertheless, we would like to point out that manufacturers' confidence is still over 50 points, suggesting expansion. It is only when we fall below 50 points that we can talk of a global recession!

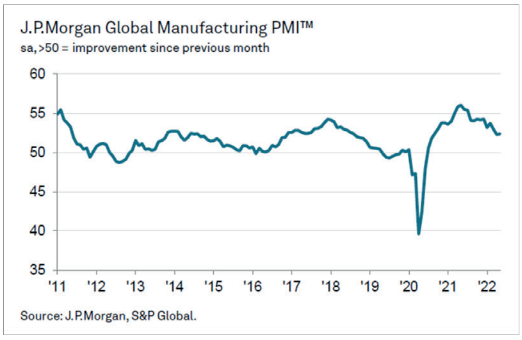

Figure 1: Trend in global manufacturing confidence in industry (JPMorgan Global Manufacturing PMI)
Source : JPMorgan, S&P Global

A further analysis of international manufacturing confidence shows the very strong impact of China on the confidence figures. Figure 2 shows the trend in global production: the dark blue line shows the trend for all countries, the grey line shows that of all countries except China. The major impact of Chinese growth on global figures is striking. The blue curve has dropped to just below 50 points, while the grey curve is moving more in a horizontal line in recent months. We can conclude from this that the slowdown in growth is mainly Chinese. More specifically, the strict reaction to the latest coronavirus wave in China has brought the Chinese economy to a temporary halt. No wonder that this approach put pressure on growth in China. And as China occupies a central position in the global economy, this had knock-on effects for the rest of the world. Indeed, for many Western companies, China is an important production platform which supplies the rest of the world. We therefore believe that the cooling off of the global economy is mainly a Chinese phenomenon. The lifting or scaling back of the severe coronavirus measures should therefore have a positive effect on global economic growth and temper fears of recession.

Figure 2: Trend in global industrial production (including/excluding China)
. Source : JPMorgan, S&P Global

Inflation figures in the Western world reached levels we have not seen in the past decade. It is an inevitable by-product of higher commodity prices. As we will see in the following sections, commodity prices also started a downward correction in the second quarter of 2022. This should hopefully cause inflation to cool down. Figure 3 shows the trend in input prices for industrial and service companies. These costs are mainly commodity prices that companies have to pay (such as oil, steel, petroleum products such as chemicals etc.). A look at the graph indicates a certain ceiling for input prices. The blue curve of industrial companies seems to be starting to fall. This is good news, as it could suggest that we have seen the peak for inflation figures (at least temporarily). And as a result, the Western central banks may not have to react quite so drastically with their interest-rate policy as we feared a few months ago. The US central bank, in particular, has recently raised short-term interest rates considerably to tackle inflation. But investors feared that a too strict monetary policy would plunge the economy into recession. If inflation figures cool down in the months ahead, these fears of recession should ease..

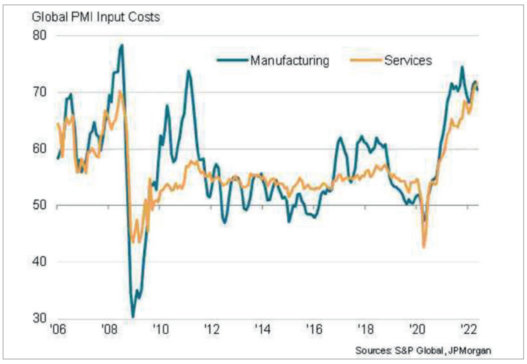

Figure 3: Trend in input prices in the industrial and service sectors. Source : JPMorgan, S&P Globall

Conclusion: as a result of strict Chinese coronavirus measures, we have seen a slowdown in global economic growth in recent months. But outside China, the economic engine is still running at a good speed. That is why the members of the Keyprivate investment committee remain cautious about predicting a global recession now. In addition, a cooling of the commodity markets should lead to Western inflation figures flattening out. This could make life a little easier for central bankers, as they will not have to raise short-term interest rates so much in order to get the inflation dragon under control. The fear of a global recession could also ease, which should allow the financial markets to take a deep breath and recover.

Financial markets second quarter 2022

Before discussing the trends in the different asset classes, it is important to understand that the first half of 2022 has been highly exceptional from a historical point of view. Over the past few months, we have seen a falling trend in all of the equity, bond and (for the last few weeks) commodity markets. This is a situation that occurs extremely rarely! There was only one clear winner in the first half of 2022, which was the dollar. Figure 4 shows these downward trends (bonds, stocks and commodities). It is a situation in which diversification across different asset classes does not work.

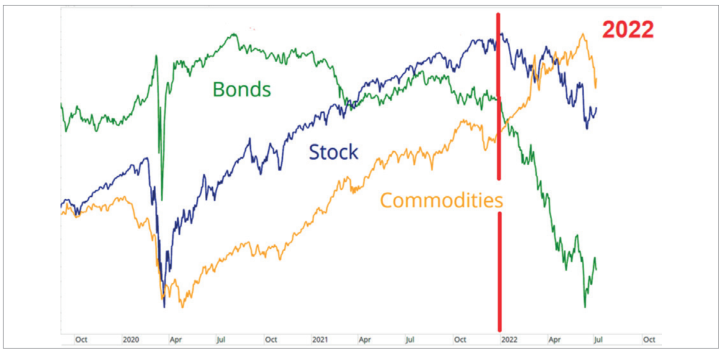

Figure 4: Performance of equities/bonds/commodities 2020–2022 Source : All Star Charts

Equity markets

The second quarter of 2022 was one best forgotten as rapidly as possible for equity investors. The steady rise in long-term interest rates exerted pressure on technology shares in particular. Since this sector has a large weighting in many equity indices, this resulted in deep red returns for many including the Nasdaq index and the MSCI World index. One sector that largely escaped the stock market correction was the energy sector: the large oil companies benefited from the rising oil prices and shares reached their highest level in recent years. The latter sector has a very limited presence in the US indices, but has, for example, a slightly higher weighting in MSCI Europe. Thanks to our investment in the MSCI Europe tracker, we were able to limit our losses. The rise in the dollar helped to limit the loss on our investment in the MSCI World index in euros.

Return on share trackers Q2 2022 (in EUR)	
MSCI World	-11,80 %
MSCI Emerging Markets	-6,81 %
MSCI Europe	-8,60 %
MSCI Europe small caps	-14,67 %

Table 1: Return on Keyprivate share trackers Q2 2022

Return on share trackers H1 2022 (in EUR)	
MSCI World	-13,69 %
MSCI Emerging Markets	-11,49 %
MSCI Europe	-13,69 %
MSCI Europe small caps	-22,56 %

Table 2: Return on Keyprivate share trackers H1 2022

Bond markets

In the long history of international bond markets, the downward corrections of 2022 have no precedent. We need to go back to the figures of the global depression in the '30s to find such heavy losses. Once again, this disappointing performance is due to the sharp rise in inflation figures in Western industrialised countries. These higher inflation figures have caused a break in the trend of the bond market: it looks very likely that the era of ultra-low interest rates has come to an end. In our Keyprivate portfolios, we opted for bonds from emerging countries in the first half of the year. This is a region where monetary authorities moved to tighter monetary policy more quickly than in the West. This keeps inflation in these countries within bounds.

Return on bond trackers Q2 2022 (in EUR)	
Staatsobligaties uit de eurozone	-7,40 %
Anleihen aus Schwellenländern	-6,79 %

Table 3: Returns on Keyprivate bond trackers Q2 2022

Return on bond trackers H1 2022 (in EUR)	
Staatsobligaties uit de eurozone	-12,03%
Anleihen aus Schwellenländern	-11,95 %

Table 4: Returns on Keyprivate bond trackers H1 2022

Commodity markets

In the first quarter of 2022, cyclical commodities were the star performers: oil, copper and other base metals reached their highest levels in recent years. One important explanation was the war in Ukraine, which triggered sanctions on Russian commodity exports. Russian mining companies are key for the supply of nickel, among other things. The sharp rise in prices was therefore logical. This increase continued in the first few weeks of the second quarter until the start of a correction phase in the commodity markets in May. As you will see in the next section, some prices, such as e.g. the copper price, are on a downward trend. As a result, the Keyprivate investment committee decided at the end of May to sell the industrial metals tracker and reinvest part of it in gold. The relatively strong performance of gold this year can be entirely attributed to what happened on the commodity markets over the past month: a sharp fall in the prices of base metals that totally wiped out their gains for this year.

Returns on commodity trackers Q1 (in EUR)	
Industrial metals	-27,07 %
Gold	-1,37 %

Table 5: Returns on Keyprivate commodity trackers Q2 2022. Source Bloomberg

Returns on commodity trackers H1 (in EUR)	
Industrial metals	-8,84 %
Gold	8,39 %

Table 6: Returns on Keyprivate commodity trackers H1 2022 Source Bloomberg

Net returns on KEYPRIVATE portfolios in H1 2022.

Table 7 shows the net returns achieved by our 10 Keyprivate profiles. Overall, we are satisfied with these results. We would like to remind readers that the first quarter of 2022 was a negative quarter for almost every asset class (see Figure 4). Nevertheless, we would like to draw attention to the more dynamic profiles (7–10), whose fall was less than that of the average world stock market.
Some observations on net returns in the first half of 2022:

- The average loss on our Keyprivate portfolios in the first half of 2022 is 10.50%. Given a correction phase in almost all asset classes, we remain relatively “satisfied” with these losses. Once again, we are achieving our goal of limiting losses during more difficult times on the stock markets. This is a basic objective for the members of the Keyprivate investment committee.
- One important rotation took place in the second quarter of 2022: at the end of May, we sold the industrial metals tracker. Part of that return was reinvested in the gold tracker. As you can read further on in this quarterly report, we took advantage of the relatively better performance of gold compared to copper (the copper price accounts for about 40% of the industrial metals tracker). As a result, we still realised our profit on the industrial metals tracker in good time, before it plunged further into the depths in the weeks following our sale.

2022	
Profile	Net
1	-9,49 %
2	-10,35 %
3	-10,54 %
4	-10,70 %
5	-10,83 %
6	-9,98 %
7	-10,19 %
8	-10,43 %
9	-10,88 %
10	-11,66 %

Table 7: Net returns for H1 2022 (30/06/2022)

Net returns 01/01/2016 – 30/06/2022									
profile		2016	2017	2018	2019	2020	2021	2022	Cumulative net returns since 2016
3 - Very cautious	100	2,37 %	2,24 %	- 6, 65 %	4,90 %	-1,90 %	10,29 %	-10,53 %	**-0,80 %**
5 - Balanced	100	4,63 %	4,64 %	- 4,84 %	5,02 %	-1,92 %	12,37 %	-10,83 %	**7,50 %**
7 - Dynamic	100	7,52 %	7,13 %	- 7,78 %	7,11 %	-1,44 %	15,12 %	-10,19 %	**15,90 %**
10 - Very agressive	100	5,47 %	8,99 %	- 8,84 %	6,17 %	1,16 %	16,62 %	-11,66 %	**15,95 %**

These net returns were based on real portfolios started up 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 towards the future

After the particularly negative first half of the year, the Keyprivate investment committee notes that pessimistic sentiment among investors is reaching record levels. This is one of the main reasons why we expect the stock markets to recover in the coming weeks and months. Sentiment is always a contrarian indicator: pessimistic (optimistic) sentiment often leads to a recovery (fall) in the stock markets. The current high level of stock market pessimists (shown in Figure 5 by the «average bears»), a level we have not seen since the financial crisis of 2007–2009, in our opinion represents an opportunity to buy shares. When managing our portfolios, this sentiment indicator was a major reason for not selling too many shares at the end of June 2022, so that we can benefit from a stock market recovery. In most profiles, we are approximately 5% underweight in equities in the portfolios.

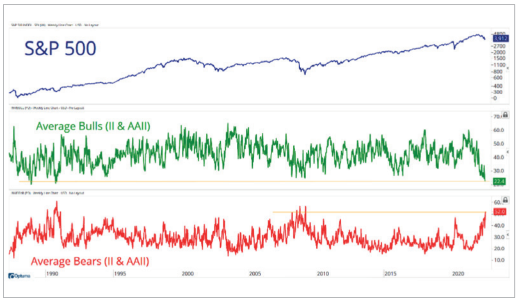

Figure 5: Sentiment indicators for the S&P 500
Source : All Star Charts

The commodity markets in general and industrial metals in particular were still performing strongly in the early part of 2022. This was partly due to the Russian invasion of Ukraine, which pushed prices for copper and nickel to record highs. Russia is a major producer of base metals and the introduction of sanctions to target Russia because of its war in Ukraine led to a sharp rise in, among other things, the price of nickel. This meant that our industrial metals tracker was a good investment in the early part of 2022. However, the commodity markets also fell prey to a correction from May 2022. Investors' fears of a recession also took their toll, as an expected recession would lead to lower demand for copper and nickel, among other things. The correction in the copper price was an important reason why the Keyprivate investment committee sold the industrial metals tracker at the end of May 2022 and reinvested part of the proceeds in the gold price tracker. Fi-

gure 6 shows the relative performance of the price of copper compared to gold: a rising (falling) trend means that the copper price (gold price) is performing much better. The graph clearly shows that at the end of the second quarter of 2022, there was a breakthrough of a significant level of support: this was a signal to start investing in gold instead of copper (which accounts for around 40% of the industrial metals tracker).

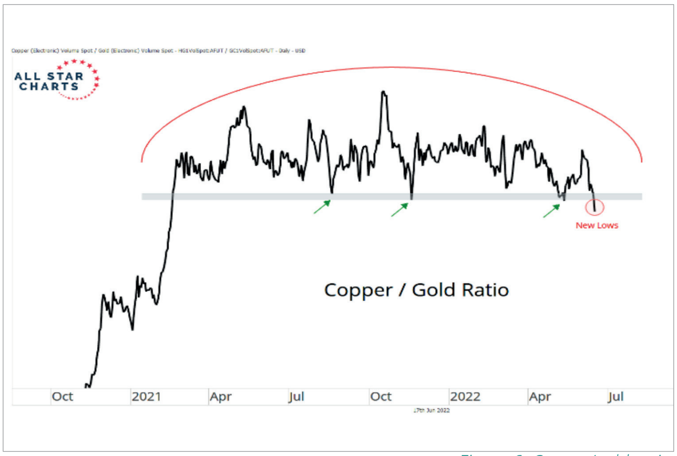

Figure 6: Copper/gold ratio
Source : All Star Charts

Conclusion: we have reached the end of a particularly turbulent first half to 2022. It was a historic half year, in which the equity, bond and commodity markets all experienced a downward correction. In this difficult and challenging environment, the Keyprivate investment committee restricted its losses. On average, a Keyprivate portfolio lost around 10% net in the first half of 2022. Our portfolios start the second half of the year with a cash holding of 15%. One important reason why we are not holding more cash is the historically high level of pessimism among equity investors. History shows us that this pessimistic mood means we should expect a recovery in the stock markets. If this expected stock-market rally does occur, the investment committee can take advantage of it to take further action (either to further reduce equity exposure or to buy additional share trackers for the portfolios). We will endeavour to identify key levels of support that will help us to carry out these actions.

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