Panta Rhei

Nothing is permanent except change

« Don't try to add more years to your life. Better add more life to your years. »
John Fitzgerald Kennedy, American statesman and 35th president of the United States (1917-1963)

Wishing you all the best for 2024!

Charles BOK
Chief Executive Officer

Dear readers,

Dear clients, friends and all other readers,

I would firstly like to wish you an excellent year in 2024 on behalf of Createrra Finance. May this New Year bring enormous satisfaction to you and your loved ones, and in particular good health, successful ventures and initiatives and abundant happiness, from one day to the next. And, at a wider level, peace worldwide. I would like to take this opportunity to thank all our clients for the trust they place in us; this is the cornerstone of our business.

At the end of every year, it is customary to take stock of what we have achieved and then to learn from it and improve. Whether in our personal or professional lives, based on objective and exhaustive analysis, we proceed to make good resolutions for the following year.

In the wealth management business, we traditionally rate ourselves against objective external benchmarks or compare ourselves with our competitors based on a basket of open-ended funds (comparable to diversified portfolios). Using such a comparison tool is useful because it allows us to take a step back and objectively assess the quality of our quantitative work (performance), and to perform a self-assessment and make any necessary improvements. Benchmarks are generally single indices such as the S&P 500 for US equities or the STOXX Europe 600 for European equities, or composite indices (60% of the STOXX Europe 600 and 40% of the S&P 500, for example). To analyse the quality of overall management, investment professionals often define synthetic benchmarks with which to compare themselves. For a portfolio with a balanced risk profile, such a synthetic benchmark could be constructed as follows: 25% STOXX Europe 600, 25% S&P 500 and 50% Bloomberg Barclays Euro Aggregate Total Return Index.

This third index is a key barometer of global investment grade, local-currency debt from a large number of markets. This multi-currency benchmark includes fixed-rate sovereign bonds, corporate bonds and bonds from developed and emerging market issuers.

But people would be all over it if things were that simple 😊!

Let's imagine that our benchmarks fell 20% over the course of a year and that our portfolios limited their losses to -16%; can we be sure that our clients would be so satisfied as to congratulate us? You will forgive me for saying no! 😉!

Benchmarks help us assess the quantitative aspect of our management as honestly as possible – provided we choose them well. That is easier said than done, and 2023 is a fine example. Basically, to keep up with the benchmarks you had to fill your portfolio with very large technology stocks (Alphabet, Microsoft, Amazon, Nvidia, etc.), because these stocks alone account for more than 60% or even 70% of the index, whereas they represent only 20% of the US economy as a whole. In an

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equal weighted (non-traditional) equity index, such as the S&P 500 in the US, each stock represents only 0.2% of the index, which means that major stock market movements in a few companies have only a limited influence. The 500 largest US capitalisations as a whole set the tone, not just a dozen or so gigantic companies. This type of index can also serve as a reliable benchmark.

We seek to invest in a diverse range of economic sectors in the interest of sound risk management – a cautious approach that sets us apart slightly from the traditional headline indices.

In practice, our main objective is to ensure that our clients are satisfied by meeting their expectations as closely as possible. We believe that the performance we deliver is an important factor but far from sufficient in itself. To satisfy our clients we must offer a full package of factors: availability, an ability to listen, transparency, responsiveness, vision and overall understanding of each client's specific situation, effectiveness in resolving any administrative pitfalls, consideration of the family, tax and in some cases legal environment, etc.

How well we manage the portfolios entrusted to us is of course important for earning and maintaining our clients' trust, and to do this, we need to clearly explain our investment strategy and ensure that it matches each client's expectations and outlook. Through open and ongoing dialogue, we must be prepared to adapt our approach based on every client's priorities and changing expectations over the whole course of our relationship with them.

Economy - Markets - Strategy: trends

Fabien PLANCQ
Senior Wealth Manager
Charles BOK
Chief Executive Officer

After a catastrophic 2022 for most asset classes, 2023 was a good year for the equity and bond markets. Despite a few sharp declines – in March as well as between end-July and end-October – equity markets trended positively over the year, despite the war in Ukraine (now in its second year) and the conflict in the Middle East.

The first quarter was marked by a serious banking crisis caused by the sharp rise in interest rates that the world's major central banks initiated in early 2022. The collapse of Credit Suisse followed by its enforced takeover by UBS was the most significant event of this crisis, which was fortunately short-lived thanks to the banking sector being much more solid than in 2008-2009.

The loss of confidence in banks saw investors immediately return to cash-rich big tech companies, ushering in a strong outperformance by these companies beginning in the second quarter. Having plummeted in 2022, the technology sector consequently saw a significant revaluation in 2023.

The third quarter was negative, with a major dive in stock markets beginning in early August, triggered by fears of further rate hikes. This saw August and September end in the red.

The fourth quarter also started in the red before recovering significantly at the end of October, when the European Central Bank (ECB) decided to keep its key rates unchanged after ten consecutive increases, for the first time since July 2022. In mid-December, the ECB again left interest rates unchanged. The Frankfurt institution pointed to the observed slowdown in inflation to justify this continued stance, as well as to its concern about the impact of previous rate hikes on growth.

On the other side of the Atlantic, at their meetings in early November and mid-December the members of the US Federal Reserve (Fed) also decided to leave US rates unchanged at 5.5%, again on grounds of falling inflation. The Fed hinted that key rates could start to be cut at the end of the first quarter of 2024.

The pauses initiated by the two major central banks as well as the fresh publication in early November of encouraging inflation figures on both sides of the Atlantic triggered a drop in bond yields and the start of a significant rebound in stock markets and bonds. These falling inflation prints indeed suggested that we are at the end of the major central banks' monetary tightening cycle, and as a result the last quarter ended in positive territory.

The past year was unprecedented in stock index performance terms, with flows directed in particular into the US' appropriately named "Magnificent Seven" big tech firms (Alphabet (Google), Amazon, Apple, Meta

(Facebook), Microsoft, Nvidia and Tesla), which boosted the performances of the S&P 500 and the Nasdaq stateside. More traditional and less technology-oriented indices put in a less flamboyant performance, however.

On the currency front, the US dollar ended 2023 down 3.1% against the euro. As for commodities, gold performed glitteringly over the past year with a rise of 13.1%. A victim of the economic slowdown and abundant supply, oil lost 10.7% in 2023 despite the various geopolitical tensions.

In 2024, we expect the global economy to gradually slow down and inflation to stabilise again. Most economists expect key rates to be cut in Europe and the United States. While their size is difficult to predict, we are factoring in a cycle of several rate cuts over the course of the year. Three 0.25% cuts are being billed in the United States, starting as early as the first quarter of the year. The rate cycle should therefore continue to dictate the direction of the stock market.

Even if corporate earnings and the economic cycle were to slow, this would not be a major problem as rates are likely to continue to drive the markets. Rate cuts will be favourable for equities and bonds as well as listed real estate.

Recommended asset allocation for a MEDIUM risk investor in EUR

Asset allocation		Currency exposure	
Total individual equities and equity funds (including real estate)	**46%**	**EUR**	**85%**
European equities	22%	**USD**	**12%**
US equities	21%	**Other**	**3%**
Emerging market and Japanese equities	3%		
Bonds and bond funds	**40%**		
AIFs	**4%**		
Miscellaneous (gold and other commodities)	**4%**		
Cash and money market funds	**6%**		
	100 %		**100 %**

Guidelines for our in-house policy. For many reasons, differences, sometimes substantial, may exist between different portfolios.
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Indexes

EQUITIES	2023
EURO STOXX 50	19,19%
STOXX Europe 600	12,74%
CAC 40 (Paris)	16,52%
BEL 20 (Brussels)	0,18%
S&P 500 (New York)	24,23%
NASDAQ 100 (New York)	53,87%
Dow Jones Industrial Average	13,70%
NIKKEI 225 (Tokyo)	28,24%
MSCI Emerging Markets	7,04%
FTSE Developed Europe ex UK Real Estate	17,83%

BONDS	2023 Q3
Bloomberg Barclays Euro Aggregate Total Return Index	7,19%
Bloomberg Barclays US Aggregate Total Return Index	5,53%
Bloomberg Barclays EM USD Aggregate Total Return Index	9,09%

COMMODITIES (IN USD)	Gold	Silver	Oil (WTI)	Bloomberg Agriculture
As at 31/12/22	1.824,02	23,95	80,26	68,82
As at 31/12/23	2.062,98	23,80	71,65	62,46
%	13,10%	-0,66%	-10,73%	-9,25%

CURRENCIES	USD	GBP	CHF	JPY
As at 31/12/22	1,0705	0,8853	0,9896	140,4100
As at 31/12/23	1,1039	0,8669	0,9289	155,7200
%	-3,12%	2,08%	6,13%	-10,90%

Investment school: yield curve inversion

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This article is a continuation of the investment tutorial I gave in our previous issue of "Panta Rhei" in October 2023, when I explained the concept of the yield curve, what it is made up of and what it represents. Today, I propose developing this theme further by explaining the current curve's very specific structure: inversion.

Inversion means that short-term rates are higher than long-term rates. This seems completely counter-intuitive: why would one be better rewarded for lending to the same issuer over a short term than over a longer term? After all, the longer the duration, the higher the risk of default. And if there are more risks, it makes sense for the return to be higher. As a general rule, investors will only accept significant risks if they believe they will realistically obtain a generous return from them.

There are two explanations possible for this particular situation.

When central banks tighten money supply, they do so by increasing short-term rates. These increases may take some time to spread across the whole curve; short-term rates may therefore temporarily exceed long-term rates. In this case, the curve inversion will only be short-lived.

The other – more worrying – explanation is that investors, anticipating a slowdown in the economy and permanently lower rates, are snapping up whatever long-term bonds are available to take advantage of temporarily higher nominal rates. This strong demand drives prices higher, automatically lowering yields and amplifying the downward movement in long-term rates.

Curve inversion is closely monitored by investment professionals because it has historically been an early indicator of recession, as confirmed repeatedly since the 1960s. However, it is important to bear in mind that this inversion does not trigger a recession but reflects investors' expectations of a drop in long-term rates, which typically happens during a recession. At the same time we cannot rule out that this correlation will not always hold in the future.

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