



KEYPRIVATE

Next generation portfolio management

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quarterly update

Q2 2021



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At the end of the second quarter of 2021, we see that the global economy and the financial markets are still in excellent shape. The trends of the first quarter simply continued in the second quarter of this year. International manufacturing confidence remains high, which is reflected in rising share prices, rising commodity prices, higher interest rates and, finally, increased inflation. The latter remains a point of concern for the KEYPRIVATE investment committee. We also remain alert to a possible recovery in the technology sector, which could lead to a strong performance of the US stock market. We are very satisfied with the net returns we achieved with our portfolios at the end of the first half of 2021.

Economic environment

The global economy is still prospering macroeconomically. None of the economists predicted this strong economic recovery a year ago. Back then, many economists and analysts still worked on the assumption that the coronavirus pandemic would lead to a global economic recession. This did not happen. The global economy rapidly digested the temporary shutdown of the economy in the first half of 2020 and a clearly V-shaped recovery followed. Our favourite economic indicator is the trend in international manufacturing confidence, which currently exceeds 55 points, the highest level in recent years! This level corresponds to an annual growth in the global economy of 4% to 5%. This is a period of strong growth, which means that we are not expecting a slowdown in growth or recession any time soon

A point of concern for the KEYPRIVATE investment committee is the diverging industrial production in Western industrialised countries and emerging countries (such as China, Brazil and India). Graph 2 shows that growth is no longer synchronised in the two regions. This may of course be linked to the new coronavirus outbreak in India and therefore be a temporary phenomenon. Particularly now that the global economy is operating at full speed, which should benefit China, the world's biggest manufacturer. If this divergence continues, we will most likely have to implement a rotation investment strategy. Since the start of the year, we have invested in the emerging market growth tracker. Perhaps an MSCI World tracker is a better choice for the second half of the year, as this includes the most important shares in Western countries.

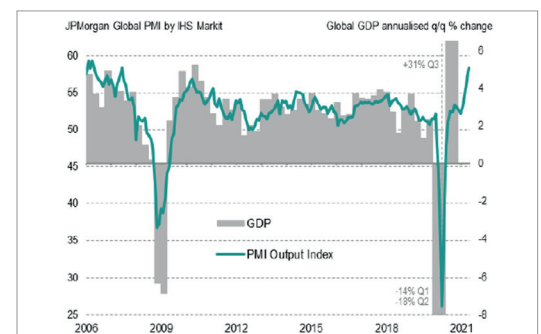


Figure 1: Global manufacturing confidence (JPMorgan Global PMI Index)
Source : IHS Markit, JPMorgan

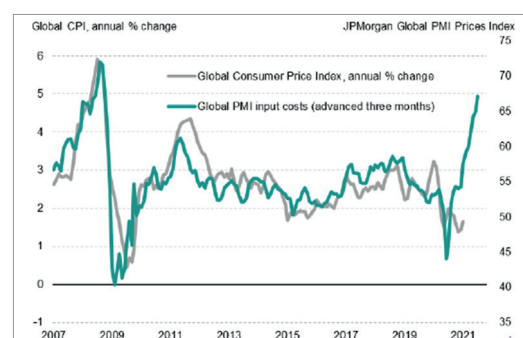


Graph 2: Global trend in industrial production (PMI Output Index)
Source : IHS Markit, JPMorgan

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Strong growth in the global economy often goes hand in hand with rising commodity prices. We are also seeing this in the current expansion phase. The rise in oil and copper prices has resulted in higher purchase costs for many companies that need these raw materials for their production process. Of course, companies will pass on these higher commodity prices to their customers. This mechanism makes the inflation figures rise month after month. We are now seeing this trend very clearly. Graph 3 shows the very close correlation between increased purchase costs («input costs» in graph 3) and the trend in inflation figures. It is clear to everyone that we can expect even higher inflation numbers in the months ahead. This could push long-term interest rates up further and cause volatility on the markets. However, to date we have seen that the higher inflation figures and the fear of inflation seizing some investors has not yet led to any nervousness among equity investors. Until proven otherwise, we are not increasing our defensive actions in our portfolios yet.



Graph 3: Trend in inflation and company purchase prices (CPI index, Global PMI input costs)
Source : IHS Markit, JPMorgan

Conclusion: the global economy remains in excellent condition: international manufacturing confidence has reached its highest level in recent years and there is nothing to suggest a slowdown in growth. The higher inflation figures and the diverging economic trend between the Western industrialised countries and the emerging markets remain points of concern for the KEYPRIVATE investment committee. This could lead to a change in the investment policy in the months ahead with investment in the MSCI World index.



Equity markets

The strong first quarter was followed by a strong second quarter for equity investors. Thanks to the strong growth in the global economy, investors are looking forward to seeing healthy corporate earnings. Interests are still very low, so more and more savers are seeking refuge in the equity markets to achieve a potentially higher return. The themes of the first quarter persist: cyclical sectors such as banks and oil companies performed very well, while more defensive equity sectors such as food and beverage lagged behind. At a regional level, we found that the lead of emerging market stocks on Western stocks is declining systematically. This could become a theme for the second half of the year, because Western stock markets often out-class the emerging markets due to a recovery in the technology sector, which is a sector that lagged behind in the first half of the year.

During the first half of the year, our KEYPRIVATE portfolios have invested in the emerging markets and European small caps (shares with a smaller market capitalisation). The latter category was the best choice in Europe in the first half of the year. However, the emerging markets achieved a slightly lower return than the Western markets. The KEYPRIVATE investment committee will not hesitate to switch to the MSCI World tracker if our indicators indicate that this is advisable. To date, the emerging markets are still at a slight advantage.

Performances trackers on actions Q2 2021 (in EUR)

MSCI World	17,49 %
MSCI Emerging Markets	11,35 %
MSCI Europe	15,55 %
MSCI Europe small caps	15,91 %

Table 1: Return on KEYPRIVATE share trackers (31/12/2020 – 30/06/2021) Source : Bloomberg



Bond markets

The international bond markets eased slightly in the second quarter. The US ten-year rate rose significantly in the first quarter, but showed a slight downward correction in the second quarter. This is probably only a temporary glitch in the US long-term interest rates' rising trend. The long-term stabilisation of US interest rates also led to a period of relative calm on the other bond markets.

At the end of the first quarter, our KEYPRIVATE portfolios switched to emerging market bonds rather than investments in the eurozone government bonds tracker. This was a very good decision by the investment committee, as emerging market bonds performed very well in the second quarter of 2021. These bonds are some of the few that are still offering a positive return this year.

Return on KEYPRIVATE bond trackers
Q2 2021 in EUR

Government bonds of the Euro zone	-3,19 %
Bonds on emerging countries	1,89 %

Tabel 2 : return obligatietrackers KEYPRIVATE (30/12/2020 – 30/06/2021)
Source : Bloomberg



Commodity markets

The international commodity markets were perhaps the most interesting to follow in recent months. Most industrialised countries have been facing rising inflation for months. The media has also noticed this trend and we have read countless analyses recommending buying gold as a hedge against rising inflation. But what is actually happening in reality? Gold has shown a negative return in euros in the first half of 2021. In a period that is characterised by an upturn in inflation. Gold may still go the other way, but it shows once again why we are careful with predictions. We primarily look at the real-life situation of the markets to make our investment decisions. We will continue to invest in the industrial metals tracker until further notice.

Returns (in EUR) on gold and industrial metals Q2 (in EUR)	
Industrial metals	14,49 %
Gold	-3,08 %

Table 3: Returns (in EUR) on gold and industrial metals (30/12/2020 – 30/06/2021)
Source : Bloomberg

Net returns for KEYPRIVATE portfolios in 2021

Table 4 shows the performance of our 10 KEYPRIVATE portfolios in the first half of 2021. What can we conclude from the trend in net returns during the first half of 2021? Below is a brief analysis:

- For the equities component, the European small caps tracker made a very positive contribution. When interest rates rise, small cap shares or shares with smaller market capitalisation perform better than larger shares. This was certainly the case in the first months of 2021. The easing of the bond markets in May and June did offer a slight advantage to large cap shares, but nevertheless European small cap shares were among the best asset classes in the first half of the year.
- Even pulling ahead of the equity component, the emerging markets tracker performed nicely in January and February. However, the relative outperformance of emerging market shares systematically declined in the months that followed. We have maintained our position to date.
- Our investment in the industrial metals tracker was a hit. Thanks to the continued improvement in the global economic situation, the international commodity markets were able to bounce back strongly. This also benefited the base metals copper and zinc, which have a heavy weighting in the industrial metals tracker.

Performances 2021 (01/01/2021 – 30/06/2021)			
Profile	Gross	Net	Difference
1	4,14 %	3,41 %	0,73 %
2	5,30 %	4,58 %	0,72 %
3	6,17 %	5,46 %	0,71 %
4	7,31 %	6,62 %	0,69 %
5	7,94 %	7,26 %	0,68 %
6	9,33 %	8,62 %	0,71 %
7	10,19 %	9,50 %	0,69 %
8	11,17 %	10,47 %	0,70 %
9	11,70 %	10,94 %	0,76 %
10	11,88 %	11,08 %	0,80 %

Table 4: Net returns 01/01/2021 – 30/06/2021

Table 5 shows our most important figures: the net returns since KEYPRIVATE's launch in 2016. It is these net returns that we seek to maximise over the medium term by reacting to market conditions. Given the multiple turbulent periods we have endured in our brief existence (Brexit, Trump's election, coronavirus, etc.) and the extraordinarily swift and sharp correction in March 2020, the long-term yields for the vast majority of portfolios still remain positive.

Net returns 01/01/2016 – 30/06/2021													
profile		2016		2017		2018		2019		2020		2021	
3 - Heel gematigd	100	2,37 %	102,37	2,24 %	104,66	- 6,65 %	97,70	4,90 %	102,49	-1,90 %	100,54	5,46 %	106,03
5 - Uitgebalanceerd	100	4,63 %	104,63	4,64 %	109,48	- 4,84 %	104,19	5,02 %	109,42	-1,92 %	107,32	7,26 %	115,11
7 - Dynamisch	100	7,52 %	107,52	7,13 %	115,19	- 7,78 %	106,22	7,11 %	113,78	-1,44 %	112,14	9,50 %	122,79
10 - Heel agressief	100	5,47 %	105,47	8,99 %	114,95	- 8,84 %	104,79	6,17 %	111,26	-1,16 %	112,55	11,08 %	125,02

Table 5: Net returns 01/01/2016 – 30/06/2021

These net returns were based on real portfolios started up on 4 January 2016 (the first trading day of 2016). These portfolios have therefore participated in each rebalancing process. The net returns calculation includes annual management fees and all taxes.

Looking towards the future

As mentioned several times in this quarterly report already, the key focus of the KEYPRIVATE investment committee is on the trend in the emerging markets. In recent years, those stock markets have performed less well than the US stock market, for instance. We can clearly see this in graph 4: a falling line means that the US stock market (with the S&P 500 as the reference index) is outperforming the emerging markets. A rising line would mean that the US stock market is performing less well than the emerging markets. Graph 4 clearly shows that the past decade belongs to the US, as its stock market has far outperformed the European and emerging markets. 2020 seemed to be a turning point as the emerging markets outperformed the US market, but 2021 seem to follow the more structural trend again with investments in US shares (which also feature heavily in the MSCI World tracker) seeming to be the better choice. We are closely monitoring the situation and we realise that a reversal of this structural trend will not be smooth. Reaching the bottom goes hand in hand with the necessary up and downs. We have to accept that. We are keeping a close eye on our indicators and if we have to abandon the MSCI Emerging Markets (an emerging markets tracker) to invest in the MSCI World, we will do so. To date, we still have confidence in our investment in emerging markets.

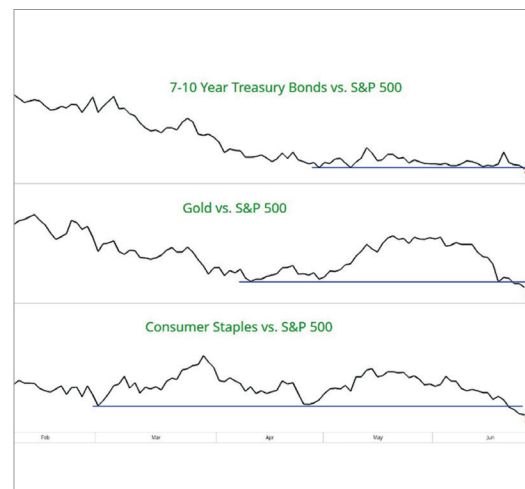


Figure 4: Emerging Markets vs S&P 500
Source : Optuma

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We conclude this quarterly report by looking at the risk appetite of investors. We do this by comparing a number of defensive asset classes, such as government bonds, gold or food sector stocks (which are viewed as defensive), to equity markets such as the S&P 500, an important indicator of global stock market trends. Graph 5 is very clear: we currently see that investors favour none of the important defensive investments. They all are all underperforming compared to the S&P 500. The message is therefore clear: investors are currently taking an offensive approach. That is why KEYPRIVATE does not wish to steer a defensive course at the moment. At the end of the first six months of the year, our portfolios are consequently investing in riskier asset classes, such as European small caps, industrial metals and emerging market bonds and equities.



Graph 5: Defensive asset classes vs. S&P 500

Source : All Star Charts

Conclusion: the global economy and the financial markets are in excellent health at the end of the first half of 2021. We do not believe that a global slowdown or recession is imminent. Healthy stock market corrections cannot be ruled out (5%-10% correction happens each year), but we do not yet see any signs of a trend reversal.

In the first half of the year, our KEYPRIVATE portfolios have achieved some excellent net returns thanks to an aggressive investment policy focusing on European small caps, industrial metals and emerging countries. The emerging markets' performance compared to that of Western stock markets is an important point to bear in mind: the emerging markets' lead is melting away month by month, and the KEYPRIVATE investment committee will not hesitate to replace emerging market shares with Western market shares based on our indicators.

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