Branch 23 funds

Management comments on economic activity and financial markets

30/09/2021

AG Employee Benefits

Introduction

Macroeconomic backdrop

EUROZONE

The EURO STOXX 50, the benchmark index for the eurozone, dipped 3.53% over September after ending August 18% higher than at the start of the year. This correction was to be expected, not least in the wake of the European Central Bank's monetary policy shift, with the bank announcing plans to "slightly" slow the pace of bond-buying in Q4. The move marks a first cautious step towards curtailing the ECB's exceptional stimulus programme, designed to prop up the eurozone economy during the COVID-19 pandemic. Eurozone inflation moved above 3% as manufacturers faced delays in sourcing some electronic components. PMIs – solid predictors of growth – fell further than expected in September. With manufacturers grappling with ongoing supply issues, the sector-specific index took the heaviest hit, dipping from 61.4 to 58.6 – although it was still well above 50, indicating expansion of the sector.

UNITED STATES

The U.S. edged into positive territory for the quarter on the back of better-than-expected corporate earnings. At the Jackson Hole Economic Policy Symposium, Fed chair Jerome Powell announced a gradual scale-back of the central bank's bond-buying programme starting this year. This "tapering" process is expected to begin in early November. The Fed revised its growth outlook to 5.9%, down from an earlier forecast of 7%. Investors became jittery as Congress remained deadlocked over lifting the debt ceiling, but nerves calmed when an agreement was reached at the end of September. Turning to the economy, inflation remained a pressing concern in both the United States and the eurozone, especially as energy prices continued their upward trajectory. Consumer confidence slumped amid soaring prices – bad news for an economy that remains heavily reliant on household spending.

EMERGING MARKETS

The MSCI Emerging Markets index ended the quarter over 6% down. China saw a strong correction, with some Chinese technology companies like online retail giant Alibaba losing more than 35% of their value. One reason for this slump was Bejing's regulatory crackdown on education and tech firms and the online gaming sector. Supply chains were also hit hard by a fresh wave of COVID-19 infections in Q3, while financial woes at the country's second-largest real estate developer sent more volatility rippling through the markets. In Brazil, the central bank hiked benchmark interest rates in an effort to curb rising inflation. Energy-exporting economies such as Colombia, Russia and OPEC member countries were the quarter's biggest winners. In India, investor fears were allayed as the country's vaccination rate reached 70%, helping to halt the spread of COVID-19.

Bond markets

Comments on Rainbow Indigo, Green and Orange (Strategic World funds), Rainbow Blue and Rainbow Blue Euro

Eurozone bonds:

Yields on German 10-year government bonds ended the quarter at -0.20%, unchanged from three months earlier. Inflationary fears mounted in Q3, due primarily to supply issues, rising energy prices and the release of pent-up consumer demand. Across the eurozone, inflation hit 3.4% in August – a figure last seen a decade ago – while German inflation reached an almost 30-year high of 4.1%.

Performance

Bonds EMU	Q3	Excess	YTD	Excess
Insight	-0.07%	-0.07%	-2.26%	0.05%
BlueBay	-0.25%	-0.25%	-1.48%	0.83%
BlackRock	0.15%	0.15%	-2.72%	-0.41%
Morgan Stanley Corp.*	-0.05%	-0.05%	-0.16%	-
BNPP AM Passive	0.01%	0.01%	-3.09%	-0.78%

*since inception

The top performer on an annual basis was BlueBay, which had the foresight to anticipate interest rate movements and gained from its positions on the Norwegian krone and the Hungarian forint. At the quarter close, our eurozone bond fund remained slightly behind its benchmark.

World bonds:

U.S. 10-year Treasury yields ended the quarter where they began. Overall, yields contracted sharply through to mid-August before central banks reiterated that interest rate hikes were not on the cards for the foreseeable future, while at the same time announcing plans to slow the pace of bond-buying programmes. The performance of investment-grade corporate bonds remained flat, while high-yield bonds offered attractive returns.

Performance

Bonds World	Q3	Excess	YTD	Excess
Pimco	0.27%	0.15%	-2.09%	-0.01%
Morgan Stanley	0.17%	0.05%	-2.15%	-0.07%
PGIM*	0.28%	0.16%	-0.58%	-
Colchester*	0.28%	0.14%	0.04%	-
Robeco*	0.19%	0.23%	-0.86%	-
BNPP AM Passive	0.14%	0.02%	-1.97%	0.11%

*since inception

After falling behind the benchmark earlier this year, our world bond portfolio made up some of the lost ground in Q3. The three newly added funds allowed for greater flexibility in asset allocation while helping to lift performance overall. For instance, the Robeco corporate bond fund piggybacked on the rebound in financial stocks.

Equity markets

Comments on Rainbow Indigo, Green and Orange (Strategic World funds), Rainbow Red and Rainbow Red Euro

Eurozone equities:

The gains made over the summer months were wiped out in September. European equity indexes ended the quarter almost unchanged. The markets bounced back after solid corporate earnings releases, while vaccination rates reached 75% across the eurozone, allaying investor fears over the Delta variant. But rampant inflation outweighed these positive developments, dragging indexes into negative territory for September.

Performance

Equities EMU	Q3 2021	Excess	YTD	Excess
Lazard	-1.63%	*-1.33%*	15.63%	*0.00%*
Alliance Bernstein value	-2.49%	*-2.19%*	16.30%	*0.67%*
BNPP AM Passive	-0.44%	*-0.14%*	16.18%	*0.55%*
Acadian multi-factor*	-2.07%	*-1.77%*	15.15%	-
BNPP AM Best selection	-1.08%	*-0.78%*	15.32%	*-0.31%*
ComGest	-4.45%	*-4.15%*	22.56%	*6.93%*
UBS Value	-0.26%	*0.04%*	16.02%	*0.39%*
BNPP AM Small Caps	-2.58%	*-0.18%*	14.27%	*-5.39%*

*since inception

The unique market conditions this past quarter have seen defensive and high-quality stocks win the demand race in the eurozone. As a result, our growth funds have put in a strong showing relative to their value counterparts. The top year-on-year performer for the year has been ComGest, due in part to its overweight position in health care stocks.

World equities:

U.S. equity markets edged into positive territory for the quarter on the back of better-than-expected corporate earning releases in July and August. Rising rates were good news for the financial sector but bad news for tech firms. It was a tumultuous quarter for the industrial and raw materials sectors. Every sector ended September in negative territory with the exception of energy firms, which were buoyed by rising oil prices.

Performance

Equities World	Q3 2021	*Excess*	YTD	*Excess*
Fiera	-2.98%	*-0.71%*	20.32%	*0.98%*
T. Rowe	-1.81%	*0.46%*	14.06%	*-5.28%*
BNPP AM Passive	-2.46%	*-0.19%*	20.07%	*0.73%*
Polaris	-1.40%	*0.87%*	19.44%	*-0.10%*
Alliance Bernstein Growth	-1.36%	*0.91%*	16.46%	*-2.88%*
Mercer SC Passive*	-0.82%	*0.03%*	-9.42%	-
BNPP Small Caps*	-0.83%	*0.02%*	-8.11%	-
WCM*	-2.72%	*-0.45%*	-5.33%	-
MAJ	-1.04%	*1.23%*	16.56%	*-2.78%*

*since inception

Our value funds were without question the biggest contributors to the performance of our world equities portfolio in Q3. MAJ and Polaris both came out ahead of their benchmarks, by 1.23% and 0.87% respectively. Yet over the year as a whole, defensive and high-quality stocks have been the top performers, with Fiera delivering a return in excess of 20%. The small caps fund, which we included at the start of the year, has made a solid contribution to our world equities portfolio. The WCM fund, newly added in June this year, has also been a strong performer thanks to its focus on high-quality stocks.

Rainbow Absolute Return Flexible Asset Allocation (RARFAA)

Investment policy

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Yields on German 10-year government bonds ended the quarter at -0.20%, unchanged from three months earlier. Inflationary fears mounted in Q3, due primarily to supply issues, rising energy prices and the release of pent-up consumer demand. Across the eurozone, inflation hit 3.4% in August – a figure last seen a decade ago – while German inflation reached an almost 30-year high of 4.1%.

U.S. 10-year Treasury yields ended the quarter where they began. Overall, yields contracted sharply through to mid-August before central banks reiterated that interest rate hikes were not on the cards for the foreseeable future, while at the same time announcing plans to slow the pace of bond-buying programmes. The performance of investment-grade corporate bonds remained flat, while high-yield bonds offered attractive returns.

Performance

The bond-heavy Rainbow Absolute Return Flexible Asset Allocation fund has returned -1.58% since the beginning of the year.

Tactical funds (EB Dynamic Portfolio & EB Neutral Portfolio)

Investment policy

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Performance

The EB Neutral Portfolio fund ended the quarter with a return of 5.47% for the year. The EB Dynamic Portfolio fund ended the quarter with a return of 9.69% for the year.

EB REAL ESTATE

Investment policy

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Performance

The FTSE EPRA, the benchmark index for European real-estate stocks, contracted by almost 9% in September, wiping out gains made over the summer months. At the end of the quarter, AXA Framlington still had the biggest share at 32% of the fund and a return of 9.42%, 36 basis points above its benchmark. Just over 23% was invested in NN, which trailed its benchmark by nearly 120 basis points with a return of 7.89%. Exposure to the new Cohen & Steers fund, which outperformed its benchmark by 70 basis points, stood at 22.39%, while exposure to BNP's passive fund was reduced to 21%.

Since the beginning of the year, the Real Estate fund has posted a gain of 7.22%, slightly underperforming its benchmark at 9.06%.

EB EQUITIES INDEXED

Investment policy

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Performance

The EB Equities Indexed fund posted a gain of 15.17% for the year.

EB BONDS INDEXED

Investment policy

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Performance

The EB Bonds Indexed fund posted a loss of -3.88% for the year.

AG Insurance SA/NV – 53 boulevard Emile Jacqmain, B-1000 Brussels – RPM/RPR Brussels – VAT BE 0404.494.849 – www.aginsurance.be
Tel. +32(0)2 664 81 11 – Fax +32(0)2 664 81 50
Insurance company licensed under code 0079, under the supervision of the National Bank of Belgium, 14 boulevard de Berlaimont, 1000 Brussels