Dear Madam, dear Sir,

The good performance of equity markets during the first quarter of the year extended into April.

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European markets performed particularly strong driven on decent economic figures, strong company results and the rather reassuring outcome of past elections. As these solid corporate earnings could clearly comfort investors, the majority of our own investments also exhibited better-than-expected results. Moreover, expectations for the rest of the year remain favorable. Healthy global economic growth and a (delicate) recovery in Europe are gradually resulting in accelerated growth for a large number of companies.

After the reassuring outcome of Dutch elections, markets continued their way up as Emmanuel Macron was victorious in the French race for the presidency. The worst case scenario in which an anti-European candidate would win was thereby avoided, leading to a big sigh of relief across European markets. Moreover, the pro-European and pro-business agenda of Macron could further stimulate upward market movement. In detail, he plans to reduce corporate taxes to a level of 25% and wants to lower taxes on low-income jobs which would positively benefit a great number of French companies. In addition, he intends to cut public expenses, which still is a concern to France. Of course, there remain some questions to be answered. French legislative elections still have to take place in June and to what extent can Macron really push through his agenda?

In the U.S., the earlier enthusiasm resulting from president Trump's announced reforms has been tempered as investors become conscious these reforms will come at a slower pace than the market and Trump would want them to. Recently, after a first failed attempt, an initial step was taken to replace Obamacare. However, the law making this possible still has to pass the Senate in which it will surely be a source of fierce debates in the coming weeks. Furthermore, Trump has also announced the general plans of his tax reforms, in which corporate taxes should be reduced from 35% to 15%. Such a move would imply a strong boost to the profitability and valuation of American companies. On the other hand, the much debated border-adjustment-tax has been pushed to the background for now. It must be clear that implementing these measures will be the result of hard-fought negotiations with a strong focus on budgetary possibilities.

Within fixed income, the current year has not been particularly great to investors. More precisely, interest rates are low and are inclined to move up, which would result in value loss over the short-term. Even taking this into consideration, we are still able to show positive performances four months into the year. The American Central Bank, or the Fed, has in the meanwhile raised rates by 25bp for a third time, as the American economy is picking up speed. The key element however is the willingness of the Fed to shrink its balance sheet after its Quantitative Easing programs over the previous years. Expected inflation in the U.S. is flirting with the 2%-mark on average for the next 10 years.

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On the other side, due to reasons mentioned above, we have seen that the market's enthusiasm regarding Trump and his Republican majority has somewhat cooled off. This has endangered the whole 'reflation trade', anticipating policies that will lift inflation and growth. As an important exponent, the U.S. Dollar has lost almost 6% current year.

Furthermore, the European Central bank is in the middle of its Quantitative Easing program. However, things are evolving here as well. More specifically, the ECB has lowered its monthly asset purchases by a quarter to 60 billion EUR per month. This 'tapering' is an indication that also the ECB is slowly but steadily coming closer to its targets. Still, markets remain skeptical. Although inflation expectations in Germany have increased to 1.20% a year for the coming 10 years, still a long way off the 2% target.

The French election result has the potential of causing a European version of the 'reflation trade' as Emmanuel Macron promises fundamental reforms that would potentially put France back on track.

After all, things may not happen that quickly. The expected rise in rates appears to happen rather gradually.

Should we be scared of possibly rising rates? Not necessarily. The major advantage of rising rates is that we can reinvest at better conditions. If this rate increase were to happen gradually, we can compensate the negative impact on valuations by reinvesting at more appealing conditions.

As indicated above, higher rates are largely the result of higher inflation. For that reason, a fifth of our fixed income investments are inflation-linked. This type of bonds increases in value whenever inflation increases. That increased value is then settled through coupon payments and at repayment of the principal at maturity.

Furthermore, we still see value in corporate bonds, both investment grade and high yield. Again, corporate bonds are the main contributors in fixed income this year.

An additional buffer is created through diversification outside the Eurozone. Since the end of last year, we have invested about 5% in GBP-denominated bonds, both corporate as sovereign. Moreover, we have 2% invested in Indian sovereign bonds, which are also performing outstandingly.

Yours faithfully,

The Management of Capital*at*Work Foyer Group