

Return DECEMBER 2023 news

Financial markets in 2023

The year of normalisation

Monetary policy was the common theme of the 2023 stock market year. The sudden spike in inflation had to be decisively stopped via a restrictive policy that was already in place in 2022. While this policy continued unabated in 2023, resulting in volatility in bond markets, the recessions feared in Europe and the US did not materialise and stock markets held up well. During the last quarter, mainly driven by the interest rate cuts expected in 2024, stock markets dramatically rebounded. The Euro Stoxx 50 Total Return Index (including dividends), the market capitalisation of the 50 largest companies in the eurozone, finished with an annual performance of 23.21% (SX5E index) and the S&P 500, a comparable index for the US, even outperformed with 26.26% (S&P Total Return index). After the poor stock market year in 2022, the market recovered well in 2023.

Despite the inversion of the yield curve, which is widely seen as a potential sign of an economic slowdown, the global economy has shown remarkable resilience. In Belgium, the feared recession did not materialise due to strong domestic demand, mainly due to increased business investment. Due to the automatic indexation of wages and the sharp rise in energy prices, companies have chosen to invest in digitisation, automation and the greening of production processes, despite the increase in interest rates. In addition, the automatic stabilisers helped to maintain purchasing power and consumption.

The resilience of the stock market can mainly be explained by the excellent performance of the technology sector, driven by the enthusiasm for Artificial Intelligence. The “Magnificent 7”, the 7 largest publicly-traded IT companies in the US, recorded a combined annual performance of more than 100% last year. The best performer was Nvidia with a return of 239.87%. Chat GPT, or rather the technology around it, has taken the world by storm.

In March, alarm bells sounded when there was a bank run on Silicon Valley Bank (SVB) in the United States. Stock markets opened in the red and there were imminent fears of a banking crisis, but the FDIC (Federal Deposit Insurance Corporation) reacted quickly to protect all affected depositors. The mismanagement of SVB does not apply to the entire sector, which has become more solvent since the 2007-2008 financial crisis. In the end, it turned out to be a good time to buy. At that time, the sick man of Europe, Crédit Suisse, was taken over by UBS at the initiative and under the close supervision of the Swiss monetary authorities.

The last interest rate hike was implemented just before the summer, in the case of the Fed, and just after, in the case of the ECB. The central banks’ primary objective of price stability was achieved. Belgian inflation was only 0.36% in October 2023, compared to 12.27% in October 2022 (source: Belgian Federal Planning Bureau). This was a welcome development for the stock market. For example, the Belgian 10-year

interest rate fell dramatically, to the great relief of regulated real estate companies, who still managed to end the year on a positive note with an annual performance of 5.24% (total return index). Gold has traditionally performed well in an inflationary environment, finishing up 9.32% in euros (Xetra-Gold).

2023 was therefore the year of normalisation and is expected to continue in 2024. Overall, the

interest rate shock was absorbed well and bond and equity markets returned to strong performance. However, geopolitical turbulence has not yet disappeared from the global stage. With a new war in the Middle East and the war in Ukraine, it remains on Europe's external borders. These tensions, combined with an important election year in the US, Europe and Belgium, will set the tone in 2024. It remains to be seen how the markets will handle it

Investment strategy in 2023

2023, like 2022, was once again characterised by huge volatility in rates, equities and currencies. The year finally ended on an extremely positive note with a rise of nearly 20% in the global equity index and a significant drop in rates over the last few months of the year, bringing them to their lowest level of the year, compared with their peak in mid-October. This remarkable fall in long-term rates is due to the belief in the financial markets that the rise in central bank rates (FED, ECB, BOE) is behind us, with the question of the timing of the reduction being the variable of volatility that is likely to dominate 2024.

This significant fall in rates revived the regulated real estate companies market, which had reached a low of -21% at the end of October (price index) and ended the year unchanged after a dramatic rise. At that time, the market value of these securities was excessively discounted relative to the Net Asset Value (NAV) of the properties in the portfolio, with discounts sometimes approaching 50%. The launch of a takeover bid on Intervest Offices and Warehouses in early October by the US listed alternative fund manager TPG Capital, at a price of €21 cash, very close to the company's NAV, contributed to this awareness of market opportunities at these levels, although the fall in interest rates was the main driver.

Thanks to this recovery, we did not have to take excessive write-downs in local accounting and we took advantage of this improvement to reduce our positions, particularly in Intervest Offices and Warehouses, which was a significant

position in our portfolios. The takeover bid, for which the prospectus approved by the FSMA was not yet available at the end of the year, was subject to specific conditions, including obtaining a majority of the capital and limited falls in either the Bel20 index (benchmark index for Belgian equities) or the EPRA Europe index (index of listed real estate securities in Europe). Given these uncertainties, we halved our exposure to this stock following the announcement of the takeover bid.

With regard to equities, we sold all funds subject to the "fair value through P&L" rule under IFRS9, directly impacting the P&L, and opted for a mandate with our manager AGI focused on a high dividend yield and a European benchmark excluding insurance. This means that we have taken the losses on arbitrage in local accounts whereas for the new mandate, the impact under IFRS9 will pass through OCI (Other Comprehensive Income = equity).

The US dollar lost 3% against the euro over the year, falling from 1.0705 to 1.1039, but with significant fluctuations during the period: a high of USD 1.04 per euro and a low of 1.12. The highest was reached at the end of September, at a time when pressure on US rates was greatest and we opportunistically decided to progressively hedge the P&L risk for the end of the year given our exposure of 120 M in assets directly invested in USD.

The reduction in exposure in bond funds (mainly Pimco) that began in 2022 was completed for large portfolios and our reinvestments were

made via mandates with our asset manager AGI, particularly in emerging market bonds and high yield bonds. For the emerging market bond portion, 50% of assets are invested in USD, which explains our higher exposure in USD.

The negative change in the value of unlisted real estate funds had a major impact on our IFRS result. These funds had not tracked the fall in listed real estate securities in 2022 and therefore reacted with a delay, significantly impacting our result in an unexpected manner.

The significant rise in short-term rates in the eurozone, caused by the successive increases in the ECB's key rates, led us to fully repay the repos that had contributed to an increase in our income in previous years. Moving from remuneration of 0.5% to a cost of 3.9%, the financial year was no longer profitable but had a negative impact on our revenues for 2023. Finally, the significant fall in long-term rates at the end of the year enabled us to make additional capital gains in bonds in the Life segment, ensuring our ability to stay consistent with forecasts and remain competitive by offering a policyholder bonus in line with the market. In life insurance, our balance sheet has been significantly reduced, mainly due to outflows from fixed-rate/capital guarantee

investments, with quite aggressive competition, both from competing insurers offering a one-time fixed rate of 3% and even from the Belgian government whose one-year bond with withholding tax limited to 15% attracted more than €20 billion at the beginning of September at the expense of savings accounts and insurance investments.

In Employee Benefits (EB), we also contributed to the launch of new trackers with lower management fees and guaranteeing performance fully in line with the benchmark. This launch was finalised with BlackRock, a manager with whom the Allianz group has an excellent relationship, including global agreements on management fees of which we were able to take advantage.

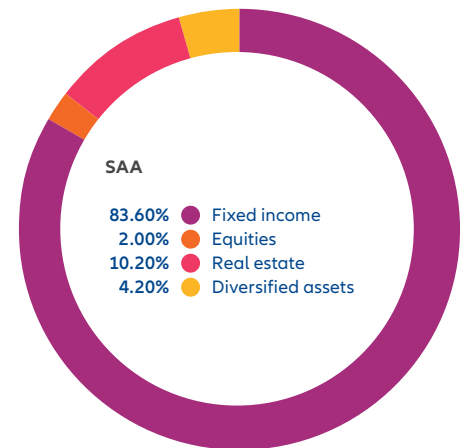
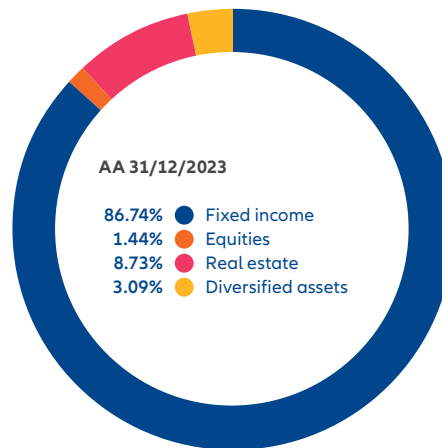
The ESG (socially responsible investing) aspect was also a major element of our concerns in 2023, both for the various Branch 21 products, including the general portfolio, and for Branch 23 funds. At the end of the year, the scale of the task led us to assign this monitoring in Investments to a product owner assisted by several employees. This structure makes it possible to distribute this increasingly complex and demanding task among different contributors in 2024.

The Mainfund has an SFDR Article 8 classification

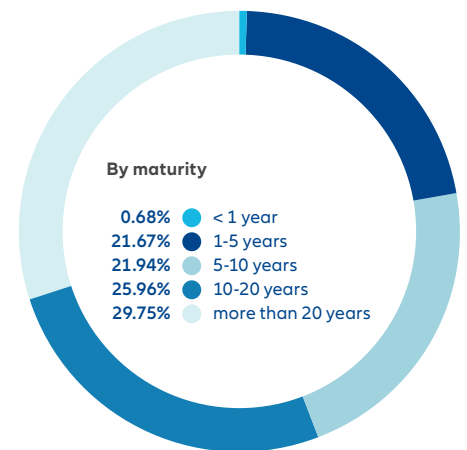
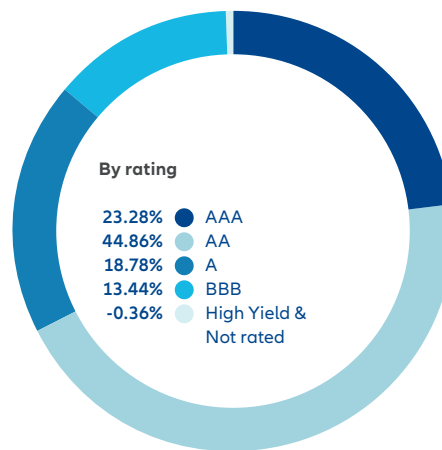
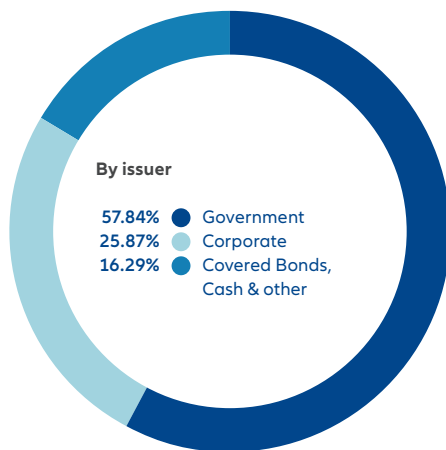
* Article 8 SFDR: the fund promotes environmental and/or social characteristics, even if they are not the most important for the product, nor for the investment process.

Distributions of assets – Main fund

Opposite, you can compare the **dis-tribution of assets (AA)** of the Main fund at 31/12/2023 with the proposed **“strategic” distribution of assets (SAA)**, as stipulated in the management regulations of the Main fund.



Spreading of fixed income



Profit sharing¹

Allocated profit sharing 2023

- For existing pension plans without a guarantee on future premiums, a profit-share is allocated for each contract¹ to obtain a total average return of at least 2.00%².
- For existing pension plans with a guarantee on future premiums, a profit-share is allocated for each contract¹ to obtain a total average return of at least 1.25%².

¹ Except for contracts that are not eligible for profit-sharing.

² Less the profit-share tax.

Past performance is not a reliable indicator for future performance.