KBC Invest Newsletter

Quarter 2, 2018

Welcome to the second quarterly edition of our KBC Invest Newsletter. In times like this when volatility returns and uncertainty grows, it's nice to know that you have expert advice right on hand.

So whether you're investing small or large sums, there's always someone ready to help you. Talk to one of our dedicated in-hub Investment Specialists today.

Markets react sharply: time to panic?

It was always going to be a self-fulfilling prophecy that 2018 would turn out nervier for investors than the near-soporific 2017. Uncertainty is on the rise and lots of investors seem inclined to take their profits after the good years on the stock market.

We look here at the questions and doubts that are currently keeping investors awake and at how KBC Asset Management views these developments.

Isn't waning business confidence a sign that economic growth is beginning to falter?

- The euro area in particular surprised friend and foe alike in 2017 by staging a robust and broadly based recovery. The period of accelerating economic growth is now behind us, but that's not to say that the economic engine has halted. Confidence indicators (PMIs)[1] self-adjust and revert to the mean. When levels are very high, in other words, the likelihood of a decline is greater on average than that of a further increase. Stock markets often take fright when these indicators ease back from their peak levels ('rollovers' as such moments are called), but when confidence indicators stabilise (or rise again) a recovery tends to ensue pretty quickly.
- Euro area confidence indicators (a PMI of 56.6 for the region's industry and 55 for its service sector) are still at levels consistent with economic growth in excess of 2% year-on-year.
- On top of this, the US economy is enjoying a substantial reduction in taxes, which is bound to have an effect in the second half of the year. In other words, while the economic engine might not shift up another gear, it is still nicely revved up.

Is a global trade war coming?

- President Trump is shaping up to fulfil another of his 'America First' promises, namely that of increased protectionism. The announcement of tariff increases on imports of steel, aluminium and Chinese products rekindled fears of a global trade war. The doomsday scenario, obviously, is that measures and countermeasures will escalate, with everyone ultimately losing. It is precisely because no one can win a trade war that we do not expect things to go so far. Developments in recent days confirm our sense that all this is very much a Trump negotiating tactic to engineer a strong opening position. Mexico, Canada and Australia, for instance, were exempted from the new tariffs on steel and aluminium imports almost immediately, followed by South Korea and the European Union. Things moved even faster in China's case, with negotiations beginning almost immediately.

Doesn't the U.S. Federal Reserve risk stepping on the brakes too hard?

- The Fed raised its key rate last week and Powell also made it clear that he wants to take further steps in 2018. A fresh wind is clearly blowing through the Federal Reserve: the new chair seems less hesitant than his predecessor, Janet Yellen, who often kept things extremely vague and cautious. The fact that inflation has yet to reach the desired level is no longer seen as a reason to hold back. The US economy is doing very well, as demonstrated once again by the most recent labour market figures: no fewer than 313 000 new jobs were created, even though unemployment is already historically low. If the Fed had put off acting any longer, it risked being overtaken by events. What's more, US ten-year bond yields currently stand at just 2.8%. This means that real interest rates are positive but are unlikely to hold the economy back to any significant degree. The Fed might have taken its foot off the accelerator, but it has yet to apply the brakes. Not to mention the European Central Bank (ECB), where they're still pondering how quickly to ease back on the gas.

Is the tech bubble bursting again?

- The technology sector, lastly, is in the eye of a storm right now. Share prices – led by heavyweight Facebook – have fallen sharply. The dominant position of several tech giants had been questioned for some time, but the situation grew more serious with the news that data from numerous Facebook accounts has been misused. Meanwhile, the European Union wants to tackle the unequal taxation of traditional companies and these worldwide tech giants. Global digital players of this kind have skilfully exploited the various tax regimes with the result that a general sales tax has been proposed in response. The tech giants face bills that will swiftly run into hundreds of millions of dollars.
- The technology sector has been racing ahead in recent years and we weren't the only ones to suffer a little vertigo in recent weeks. We lowered our sector recommendation to neutral and scaled the tech position back in our equity strategy. All the same, anyone comparing the present situation with the bursting of the dot com bubble in 1999–2000 is overlooking the crucial element of profit. The technology sector back then was an extremely promising niche, but very little was generated in the way of corporate earnings. Things are different now, with substantial profits recorded quarter after quarter (+20% in the fourth quarter of 2017), plus the fact that a lot of these tech giants boast immense cash reserves.

Conclusion:

A great deal of good news found itself priced in last year, and fearful investors are holding their breath now that this 'good news show' seems to have run its course. This is understandable, but we view it chiefly as a return to a more normal stock market situation, in which good periods alternate with bad ones. However, there is no reason whatsoever to assume that the economy has ceased to be the principal equity market driver. A strong economy still translates into rising corporate earnings, which boosts share prices. Producer and consumer confidence levels, industrial output and retail sales all point in the direction of a further increase in corporate earnings. This ought to provide investors with a little reassurance. We're keeping a close eye out, but continue to overweight shares in the KBC Investment Strategy[2].

1. PMI = Purchasing Managers' Index: an indicator of business confidence and hence of economic growth. A figure of 50 represents a neutral level, while one below 50 indicates a contracting economy and one over 50 economic growth. 2. The investment strategy described in this document relates to all investment funds (undertakings for collective investment) managed by KBC Asset Management NV, which make explicit reference in their investment policy, as laid out in the prospectus, to KBC Asset Management's investment strategy. The stated strategy is not, therefore, altered in the case of other investment funds, the investment policy of which does not refer directly to KBC Asset Management's investment strategy. It is possible that these investment funds are managed in a way that differs from the investment strategy. You should always read the prospectus and the Key Investor Information Document for the relevant investment fund.

SIVEK Investment Funds

Looking back

Our SIVEK investment funds are multi-asset funds which aim to generate a return by spreading the investment across equity funds, bonds funds and money market funds. The 3 funds are managed in accordance with the KBC Asset Management Investment Strategy for our various investor profiles.

Investor Profile	SIVEK Investment Fund	Investment Horizon
Defensive	SIVEK Global Low	1 to 3 years
Dynamic	SIVEK Global Medium	3 to 5 years
Very Dynamic	SIVEK Global High	5 to 7 years

SIVEK has a strong and proud 24 year track record of performance.

Past Performance (based on 31.12.2017 prices).

After management fee and other ongoing charges. Source of data: KBC Asset Management

	Performance 1 Year	Yearly Performance 3 Years*	Yearly Performance 5 Years*
SIVEK Global Low	2.26%	2.87%	4.79%
SIVEK Global Medium	4.83%	4.47%	6.74%
SIVEK Global High	7.04%	5.94%	8.93%

* 3 & 5 year returns are annualised figures. Daily prices and performance for different time periods can be obtained on kbc.ie.

Benefits of Investing in Sivek

- You can start investing from 18 years of age and you can start investing from as little as €125.
- You can either invest a lump sum or choose Start2Invest to invest a monthly fixed amount through a standing order from your KBC Current Account.
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- There is no minimum investment time period so you have access to your cash at all times.
- Low 1% entry fee, transparent management fees and charges, 0% exit fee.
- We offer a free investment advisory service to make sure you get the product that is right for you.
- SIVEK Invests in approximately 4,000 securities making it a well diversified portfolio which means risk is spread.
- Fully Transparent Fund Performance – Daily Net Asset Value's NAV (fund unit price) is posted on our website, so you can see exactly how your investment is performing.
- SIVEK is tailored to the needs of different Risk Profiles making it suitable for Defensive, Dynamic and Very Dynamic Investors.

Resetting floor level for Privileged Portfolio Pro

The Privileged Portfolio PRO fund family has 4 tranches: February, May, August and November. For each tranche, you can choose the level of the monitored floor: 95%, 90% or 85%.

Every year the protected floor level of your chosen Privileged Portfolio PRO fund is calculated based on the 'Net Asset Value' (the unit price) of this fund on a fixed date. The floor level is set – depending on your chosen monitored floor – at 95%, 90% or 85% of the fund price on the fixed yearly date. This new floor level, reset at a higher or lower price than the previous floor price, will be then valid for a period of 1 year until the next reset date.

Recently the floor levels for the investment funds of the May tranche of Privileged Portfolio PRO were reset. There was a volatile start to 2018 which saw sharp moves downwards in equity markets. Therefore, the 95 & 90 May funds reset downwards by 2.19% & 1.64% respectively. The May 85 fund reset upwards by 1.21%. The May tranche of Privileged Portfolio PRO continuously protected the stated monitored floor. This track record of floor protection – even in more extreme markets such as in 2008 – stands since the launch of this fund solution in 2006.

New Floor Levels

After management fee and other ongoing charges.
Source of data: KBC Asset Management.

	Previous Net Asset Value 30.04.2017	Previous Floor Level since 30.04.2017	Current Net Asset Value 30.04.2018	Current Floor Level since 30.04.2018
Privileged Portfolio PRO 95 May	338.97 euro	322.02 euro	331.55 euro	314.97 euro
Privileged Portfolio PRO 90 May	353.44 euro	318.10 euro	347.63 euro	312.87 euro
Privileged Portfolio PRO 85 May	361.48 euro	307.26 euro	365.86 euro	310.98 euro

Start2Invest now

You don't need a big lump sum to invest. The Start2Invest approach allows you to set up a monthly investment plan from 125 euro towards the SIVEK, Privileged Portfolio Pro, or Flexible Portfolio investment fund of your choice. Each month a fixed amount will be invested automatically, without further actions or paperwork. Without any costs you can set up your personal investment plan. You will only pay the fees and charges of the KBC investment funds you choose to invest in.

The benefit of regular investing is that not only does the value of the monthly fixed amount increase, but that also the increased value itself generates further increases over the investment period. According to the historical past returns achieved by our investment strategy, a recurrent monthly investment of 125 euro resulted in the following investment totals.

Investing 125 EUR per month	Return Generated if you Invested 125 EUR every month for the given dates	% Return Generated if 125 EUR invested every month for the given dates.
During 20 years - Jan 1998 to Dec 2017	€41,293.34	3.11%
During 10 years - Jan 2007 to Dec 2017	€18,177.85	3.96%
During 5 years - Jan 2013 to Dec 2017	€8,615.51	6.29%

* Above returns based on €125.00 invested in SIVEK Global Medium fund on 7th of each month for the period stated. Figures quoted are net of management fees and ongoing charges. Source of data: KBC Asset Management.

What to do next

Would you like to find out more about Savings and Investments but aren't sure where to start?
Contact your local investment specialist in KBC Baggot Street.

4 Lapp's Quay, Cork

021 422 2600 kbc.ie

The term "fund" refers to a sub-fund or a Bevek under Belgian law, a sub-fund of a Sicav under Luxembourg law or a mutual fund under Belgian law. Performance figures are based on investment returns. The calculation of past performance includes all charges and fees, except taxes and entry charges. The assets of this fund may be used for the purposes of securities lending in order to earn an additional return of the fund. While securities lending increases the level of risk within the fund, it can also provide an opportunity to increase the investment return.

Warning: Past Performance is not a reliable guide to future performance.

Warning: This fund may be affected by changes in currency rates.

Warning: If you invest in this product you may lose some or all of the money.

Warning: The value of your investment may go down as well as up.

Tax: Investors should note that the tax legislation which applies to the Fund may have an impact on the personal tax position of your investment in the Fund. KBC Bank Ireland plc is regulated by the Central Bank of Ireland.