Panta Rhei

Nothing is permanent except change

« It is the supreme art of the teacher to awaken joy in creative expression and knowledge. »
Albert Einstein (1879-1955) was a physicist who was born a German before becoming stateless (1896), then Swiss (1901) and later acquiring dual Swiss-American citizenship (1940). He was the recipient of the 1921 Nobel Prize in Physics.

Digital banking: have we gone too far?

Charles BOK
Chief Executive Officer

Dear clients, friends and readers,

If we had to choose one value we are proud of at Createrra Finance, it would be the personal touch we bring in our relations with our clients.
We are on hand to assist them as much as possible and to support them in many areas relating to the management of their assets.
By and large, commercial banks have sought to cut down on the time that their staff spend interacting with their customers, preferring digital solutions instead (e-banking, chatbot hotlines with no human input, etc.).
It has gotten to the point where customers have to jump through hoops just to get an appointment with their banker!
Not to mention older customers or those who are simply not comfortable using digital tools; they can sometimes feel left by the wayside and often need to rely on a friend or family member just to get their bills paid or to avail of other banking services.

The « old » way of doing things in which customers could pop into their local branch to chat to an advisor has been replaced by scheduled appointments. While this may make it easier to obtain more tailored, specific responses to their queries, it dampens the spontaneity of human contact.
Needless to say, by ensuring that staff use their time as profitably as possible, banks are able to cut certain costs; customers simply have to adapt.

Of course, the integration of new technologies into user access and the management of banking services has its advantages. Many customers use features that enable them to set up a transfer, raise their credit card limit or place a stock market order 24/7 at the touch of a button. Such functionalities have even become essential in order to attract young, connected customers.

Bank staff themselves are not always entirely convinced that a fully digital approach is a good thing. Some banks appear to be gradually making a U-turn in some areas. They are restaffing their hotlines and making it easier and quicker for customers to make an appointment.

In our line of work, customer contact is essential, not only to meet their expectations but also to better understand and sense their needs. The aim is to alleviate or do away with any administrative and legal concerns they may have regarding the management of their assets, with their family in mind, by making their life easier when it comes to such things.

Different lines of work I hear you say: commercial banking and wealth management are hardly comparable! As if the need to feel supported by your banker in the day-to-day management of your accounts, insurance policies and other services suddenly vanished with the availability of digital solutions.

Of course, such a service cannot be provided free of charge!
I think that many customers would be happy to pay a little more in bank fees in exchange for more help and support from the people who are their contacts with their bank.

In any case, we will not be replacing our people with machines any time soon, however « smart » they may become.

That will not stop us from harnessing the benefits of the latest technological developments in our asset management processes.

In this edition:

Economy - Markets - Strategy : trends

Fabien PLANCQ
Senior Wealth Manager
Charles BOK
Chief Executive Officer

The third quarter was marked by some major political events. In the US, Joe Biden's withdrawal from the presidential race to make way for Kamala Harris was generally welcomed by the financial markets. In contrast, Emmanuel Macron's decision to dissolve the French parliament, triggering a snap election, weighed on the Paris stock market (CAC 40), which has been lagging well behind its European neighbours ever since. This lag also stems from the fact that the CAC 40 is a « luxury-heavy » index, at a time when the luxury goods sector is struggling due to the economic slowdown in China. In the UK, the centre-left Labour Party's landslide victory reshaped the political landscape, but this had no major impact on the flagship index (FTSE 100).

As for the conflicts in Ukraine and the Middle East, while tragic, they continue to have little impact on investor sentiment.

On the economic front, fears of a recession in the US sparked a temporary but spectacular sell-off in equity markets in early August, followed by a rapid recovery in the following weeks. Global markets continued to falter in early September on concerns over growth in the US economy and a potential bubble relating to companies linked to artificial intelligence. However, the markets rallied quite quickly again in the following weeks.

In mid-September, in an effort to boost the European economy, the European Central Bank (ECB) cut its key interest rate by 0.25%, bringing the deposit facility rate down from 3.75% to 3.50%. This cut had been widely anticipated by economists and investors and was the second one to be made this year. The ECB's President, Christine Lagarde, confirmed that the Euro area economy was slowing, but remained vague about how the institution would respond going forward. Growth forecasts for 2025 and 2026 were also trimmed.

A few days later, in a first since 2020, the US Federal Reserve (Fed) lowered its key interest rate by 0.50%, bringing the federal funds rate into a range of 4.75% to 5%. This steep cut took some economists by surprise, as they had only been anticipating a quarter-point reduction, and was the first step in the delicate handling of a soft landing for the US economy. According to Fed Chairman Jerome Powell, there does not appear to be any strong risk of recession for the time being, reinforcing the prospect of a soft landing. The Fed also said that a further 50bp (0.5%) cut was on the cards before the end of the year. The fed funds rate is expected to fall by another 1% in 2025. This marks a definite shift towards significantly lower rates on both sides of the Atlantic.

In China, leaders decided to take the bull by the horns at the end of September in a bid to stimulate economic growth. This saw the Chinese central bank announce a string of rate cuts in the last week of the month. Chinese banks will have fewer constraints on lending to customers, which should strengthen the economic recovery. This sparked a strong rally on Chinese markets, as well as in European luxury stocks.

In commodities, the uptrend in gold prices accelerated in the third quarter of 2024, bringing the year-to-date performance to +27.7%. The price of oil fell again in the last quarter and delivered a negative performance (-4.8%). In currencies, the dollar has fallen over the last three months, making for a year-to-date fall of 0.9%.

The last quarter of the year has just begun and will undoubtedly be marked by the US elections. At the beginning of November, all eyes will be on a Trump-Harris duel that promises to be very close.

For the time being, the current environment appears to be supporting the markets amid the return to an accommodative central bank policy and still-healthy investor confidence.

We remain fairly confident going into the fourth quarter.

Recommended asset allocation for a MEDIUM risk investor in EUR

Asset allocation		Currency exposure	
Total individual equities and equity funds (including real estate)	**50%**	**EUR**	**85%**
European equities	24%	**USD**	**12%**
US equities	23%	**Other**	**3%**
Emerging market and Japanese equities	3%		
Bonds and bond funds	**38%**		
AIFs	**4%**		
Miscellaneous (gold and other commodities)	**4%**		
Cash and money market funds	**4%**		
	100 %		**100 %**

Guidelines for our in-house policy. For many reasons, differences, sometimes substantial, may exist between different portfolios.
Drafting closed on 01/10/2024

Indexes

EQUITIES	2024 Q3	2024 YTD
EURO STOXX 50	2,17%	10,59%
STOXX Europe 600	2,24%	9,17%
BEL 20	10,61%	15,96%
S&P 500	5,53%	20,81%
S&P 500 Equal Weight	9,06%	13,54%
NASDAQ 100	1,92%	19,22%
NIKKEI 225	-4,20%	13,31%
HANG SENG	19,27%	23,97%
MSCI EMERGING	7,79%	14,37%
MSCI WORLD	6,02%	17,48%

COMMODITIES (IN USD)	Gold	Oil (WTI)	Bloomberg Agriculture
As at 31/12/23	2.062,98	71,65	62,46
As at 30/09/24	2.634,58	68,17	58,35
%	27,71%	-4,86%	-6,59%

BONDS	2024
Bloomberg Barclays Euro Aggregate Total Return Index	2,49%
Bloomberg Barclays US Aggregate Total Return Index	4,45%
Bloomberg Barclays EM USD Aggregate Total Return Index	8,17%

CURRENCIES	USD	GBP	CHF	JPY
As at 31/12/23	1,1039	0,8667	0,9289	155,7200
As at 30/09/24	1,1135	0,8325	0,9416	159,9400
%	-0,86%	4,11%	-1,35%	-2,64%

Investment school : Understanding extremes in financial markets – A Solvay Business School student gives their take.

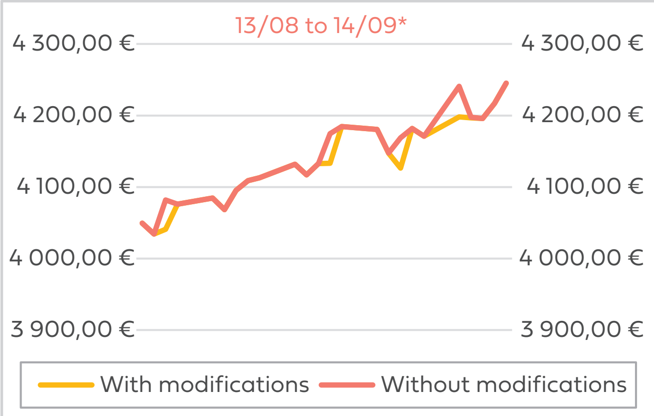
Eric – Christin NEVES
Intern

The financial markets can often hold surprises, oscillating between moments of calm and episodes of severe turbulence. The past few months have been no exception, and close market observers have seen how specific days can have a disproportionate impact on overall performance. This has given me an opportunity to become reacquainted with a fascinating concept I studied at Solvay Business School, which I observed first hand during my internship in wealth management : the dictatorship of extreme values. This phenomenon shows us that just a few days in the year can model the entire annual performance of an asset. I would like to share with you my observations regarding short-term market volatility and what we can learn from this.

The dictatorship of extreme values: a striking market reality.

The concept of the dictatorship of extreme values hinges on one key observation: there is no linear distribution of financial market gains or losses throughout the year. In actual fact, most of an asset's annual performance boils down to a very small number of days in which the asset has recorded sharp gains or corrections.

We need only look at the Bel20 index between 2022 and 2024. It has registered a compound annual growth rate of 11.7% over that time. However, if we strip out just 1% of the days on which it posted the sharpest increases, this performance drops to 4.7%. Of these days, 13 registered an increase of more than 1.5%, which shows that the correction of these extreme days has a disproportionate impact on annual performance. This is a clear example of how a handful of key days can dictate the overall performance of the financial markets.



** Movements in the Bel20 index between August and September 2024, showing the performance difference with and without the factoring-in of days on which the index registered sharp increases.*

The logic behind this is that market movements are not linear or constant. In actual fact, just a few days of extreme rises and falls account for the bulk of the performance. By removing these days from the equation, the annual performance becomes virtually insignificant. This shows just how difficult, even dangerous, it is for an investor to guess how the market will go by trying to sell and buy back a position at just the right time.

The importance of extreme values in an investment strategy.

During my internship, I was able to see how experienced wealth managers incorporate an understanding of extreme values into their long-term strategy. They know that the temptation to exit the market altogether can be costly. That is because, even if the price is expected to go down, it is next to impossible to predict extreme rise days, and it would be dangerous to miss out. Performance is only partly driven by small, steady increases and far more by a small number of days of extreme volatility.

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