# Van den Heuvel: Noise Against a Background of Strong Economics

Stockholm (HedgeNordic) – With continued uncertainty over trade wars, potential interest rate rises and geopolitical risks such as the on-going Brexit negotiations Olaf van den Heuvel *(pictured),* chief investment officer of Dutch Aegon Asset Management with €318 billion in AuM looks to what the remainder of 2018 holds for investors.

Van den Heuvel believes markets have and will continue to deliver in 2018 despite the constant economic and geopolitical background noise and the volatility such events cause.

He says: 'As we expected the one stand out investment feature of 2018 so far has been the return of market volatility across most asset classes. Volatility is generally good news for active fund managers as it provides us with an opportunity to provide additional value through fundamental analysis and good stock-picking. And despite this volatility, most economies continue to steadily grow. The year so far has been marked by a continuous flow of different events, such as equity market volatility spikes, widening LIBOR spreads, Italian politics and Emerging Market currency weakness all of which have taken center stage at one point. These events have all moved markets, sometimes rather dramatically, only to be forgotten again in a matter of days.'

Going forward he believes it is not hard to map out the events that will impact markets for the remainder of the year.

Van den Heuvel says: 'Trade policy has now come to the forefront and this will continue if Donald Trump continues to pursue tariffs on the trade coming out of China. The Chinese economy itself is looking relatively soft with both the currency and equity markets recently falling sharply. I believe that worries on the sustainability of the Chinese growth model will become top of mind at some point this year as will the potential fallout of any Brexit deal or no deal.

'Monetary policy changes by the Bank of England, European Central Bank and US Federal Reserve will no doubt have an impact going forward have been well flagged, with the market is pricing in a hike by the BoE in August but after that it will find it very hard to convince the market of the need for future hikes. The ECB has intimated its expectation is that policy rates will remain at their present levels at least through the summer of 2019. While the continued underlying resilience in US growth is supportive of the Fed continuing with its gradual hiking path. And of course we will have our usual dose of unknown unknowns.

'It is important to realise that all this noise happens against a background of strong economic growth globally. For the remainder of the year this should continue to support earnings growth above the long term average. Given that in general the price you pay for those earnings is still acceptable and we think equities are still a relatively good place to be invested. The volatile market environment might actually offer some attractive opportunities. We have a small preference for developed market equities as they tend to outperform emerging markets in an environment of tightening monetary policy in the developed world. However, of course that is a well-known phenomenon and markets have been positioning as such. Some of the markets that normally are part of the weak bunch, countries like Brazil have therefore become very cheap. You pay very little for the earnings you are getting when the economy is at rock-bottom.

Fixed income will remain a trading market. The long-term trend of ever lowering interest rates has probably ended, but for the moment it isn’t reversing. Given that a large part of the world’s aging population and governments are trying to be more frugal the amount of money looking for a safe place is only growing. At the same time the demand for money from companies to invest remains low. A lot of supply and low demand means a low price of money, aka the interest rate. Swings in sentiment will hit fixed income markets, but it is hard to discern a trend here.

The one market that looks set to shine is the commodities market. Inventories of oil are declining rapidly as high economic growth is boosting demand. There are good ways to position for this in multiple markets and we are doing so. Our multi asset funds have taken advantage of their unconstrained and diversified approach to exploit attractive opportunities in the commodities space across several different asset classes. Examples include our Diversified Monthly Income Funds select exposure to the High Yield energy space offering attractive spreads against the wider market for proven cash generative producers as well as recently adding equity exposure to the large integrated multinational players.  While our Diversified Growth Funds have recently added exposure to a basket of European oil companies.