GENERAL INVESTMENT CLIMATE

The Economy

“Did anything happen, did anything change?” It could be the reaction of someone looking at his or her stock portfolio for the first time after being cut off from the world for six months. Looking at absolute stock market index levels, one wouldn’t say anything has happened since New Year’s Eve. In the meantime however, the underlying economies are suffering from the Covid-19 pandemic and its countermeasures. Companies, big and small, are stumbling over each other to announce restructurings and lay-offs. Private investment has been largely halted while public investment and unemployment schemes have come into action. Helicopter money has been distributed in Europe and the US in order to support consumption and as a result, a V-shaped recovery is “the talk of the town”. Yet, generally optimistic institutions like the FED, the ECB, the IMF and the World Bank are predicting gloomy scenarios for the world economy. The most recent base case scenario from the World Bank is a 5.2% decline in global GDP in 2020. The IMF predicts a 3% slowdown globally. For reference, the IMF predicted 0.5% global growth in January 2009 for the year while effective growth for 2009 came in at minus 1.67% according to World Bank data. No wonder the Fed and the ECB kept rates unchanged at very accommodative levels and many of its counterparts have slashed rates if they had the room to do so.

Another barometer for the economy, the price of oil (WTI), collapsed into deeply negative territory in the beginning of April. An event never seen before. As a result of the global lockdown, no traffic hit the road and the majority of factories were shut down. In a few weeks oil demand completely dried up and storage facilities like in Cushing, Oklahoma were more than saturated. Like stock prices, things have calmed in the meantime and WTI oil trades again around 40 dollars a barrel. As lockdown measures have been lifted in Europe and most of the US, traffic and industrial activity has resumed, effectively showing a first leg of a V-shaped recovery. Global tensions have however not faded and neither has the virus. The US-China decoupling is more alive than ever when President Trump looks for a scapegoat in the light of his failing Covid-19 policies. China, “the originator” of the virus is to blame. More important though is the reaction of companies worldwide who have seen their supply chains interrupted drastically. They, together with sovereigns, will ask themselves the question whether they haven’t become too dependent on “the East”.

Crucial in any economic recovery is the reaction of the consumer. Their behaviour will dictate what will happen next. Many are weary of the virus due to personal experiences or media coverage. Will they come back out and spend? Will they pick up travel like they used to? Will they get into debt like they used to? Time will tell. One thing that seems here to stay is telework. The whole world has been communicating via video conferences during the lockdown. While personal contact still has its merits, working from home has proved efficient and will save companies a decent amount of money in smaller office buildings and travel expenses. On top, governments and employees have been given a solution for their congested road infrastructure problem.
Oh, things have happened, things have changed.

Currency and Money Markets

The dollar, that mighty dollar. In the midst of the Corona crisis, the dollar saw an aggressive rise but has since reversed as worries in financial markets have faded. The EUR/USD pair currently trades around 1.13. Stimulus measures might be the main driver of currencies going forward. While the US has been throwing trillions of dollars, or more than 8% of GDP in direct fiscal stimulus at this crisis, the European Union has to deal with the "frugal four" (The Netherlands, Denmark, Sweden and Austria) before another stimulus package can be approved. Similar reversions can be seen between the dollar/yen pair and dollar/pound pair.

Stock Markets

Table 1.1 - General

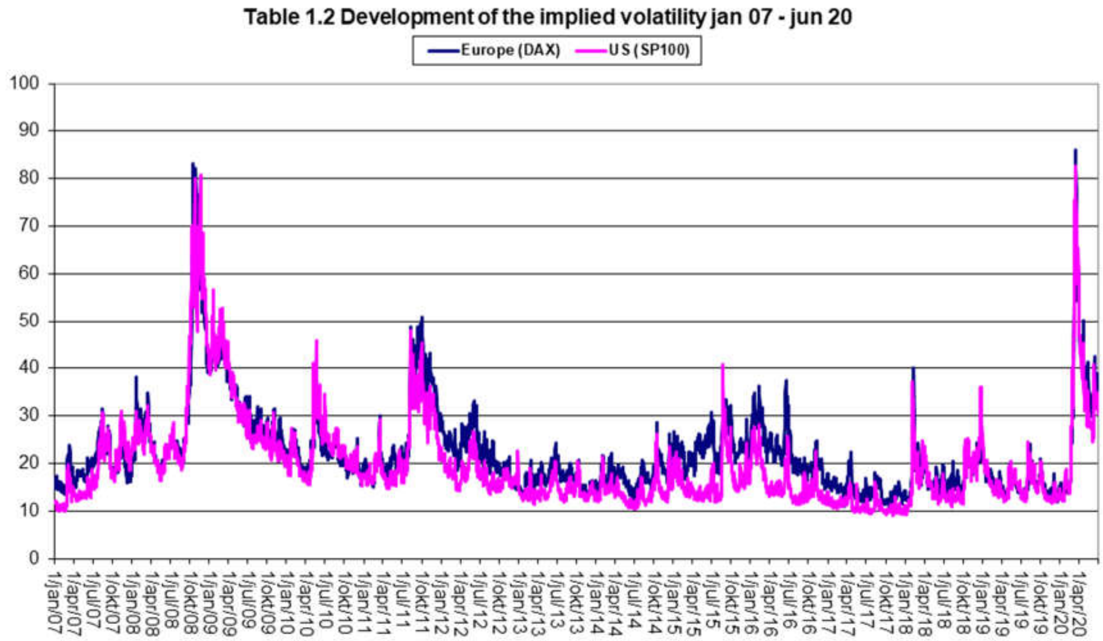
	30-Jun-20	31-Mar-20 - 3 mnth	31-Dec-19 - 6 mnth	30-Sep-19 - 9 mnth	30-Jun-19 - 12 mnth
AEX	559,73	15,78%	-7,42%	-3,53%	-0,36%
BEL20	3328,01	14,70%	-15,87%	-10,40%	-6,19%
DAX	12310,93	23,90%	-7,08%	-0,94%	-0,71%
EU50	3234,07	16,05%	-13,65%	-9,40%	-6,90%
DJ	22959,07	4,75%	-19,55%	-14,70%	-13,69%
SP500	2757,53	6,69%	-14,65%	-7,36%	-6,26%
Nasdaq	8946,70	16,19%	-0,29%	11,84%	11,75%
EUR/USD	1,1234	1,84%	0,18%	3,06%	-1,18%
Euribor 3 months	-0,422	-0,059	-0,039	-0,004	-0,077
NL govt 10 year	-0,293	-0,076	-0,241	0,131	-0,137

As mentioned earlier, stock market indexes are trading close to their all-time highs again and booked their best quarter in more than 20 years. Underneath the surface a lot of dispersion can be noted though. Stocks related to the leisure industry are still trading about 50% lower than in the beginning of the year. Consumer goods companies that make their money through online sales have seen their stock prices soaring. Year to date performances of over 100% are not unusual for these companies. Whether new but more local lockdowns will have an impact on the stock market remains to be seen. This is certainly a market environment where stock picking and bottom-up research stand out.

With rising stock prices and a record number of "ordinary" people entering the market out of boredom during the lockdown, sentiment has turned bullish again. Even a major German accounting scandal hasn't been able to tremble the markets. We seem to have evolved in a way that we are able to find out who has been swimming naked without the tide going out.

Implied Volatility

In line with the story above, volatility has come down significantly from the elevated levels in March. Currently it trades in a range around the 30 hurdle. Volatility hasn't been completely subdued but wild swings haven't been seen recently.



The Long Term

The AEX index has reclaimed its 200-day moving average. Central bank injected liquidity finds its way to the bond and stock market. The economy is weak but recovering and central banks and governments are pulling all strings to keep the music playing.