GENERAL INVESTMENT CLIMATE

The Economy

A slow return to normality has been the theme in the third quarter of 2020. Leisure travel had been allowed again within Europe as of late June, pubs and restaurants reopened and people slowly returned to offices instead of tele-working full time. Despite several claims for the need of a new social contract, the 'new normal' looks very much like the old.

With this backdrop, the central banks have kept their accommodative monetary policies in place and the FED even announced a policy shift in that its inflation target of a fixed 2% now becomes an average of 2%. A seemingly insignificant change but one that has been a long time coming and not as insignificant as it looks. The underlying goal is to stimulate this sluggish economy even more. After a prolonged period of low inflation like in the past ten years, the FED now allows itself and the government a more and more aggressive monetary and fiscal policy. If that means inflation runs hot, so be it. There is room to do so in the new "average" 2% inflation framework.

On the 30th of September, the ECB followed suit by announcing that it also considers letting inflation exceed its target. Whether very accommodative policies can actually offer us inflation in the coming years, is another question. An area where inflation is actually abundantly clear is the real estate market. Articles about the fact that people are in a rush to move away from their city apartments to a house with garden in a suburb are appearing daily. Too bad for the millennials who are forced out of the ever-rising market. Companies in the meantime have been reporting relatively good numbers given the GDP slump in 2020Q2. Cost cutting through abolished travel and marketing expenses has been an important factor that limited the damage. Additionally, government aid has also helped in limiting the damage. The latter will slowly be scaled back by governments over time. Some measures have already been abolished; others are being extended for a certain period of time. Whether companies can and will keep their current workforce after temporary aid measures are abolished remains to be seen.

On the Covid-19 front, things looked promising at the beginning of the third quarter but as we write this report infection rates are rising over most of Europe again. Governments are struggling with the appropriate measures to take as the population is getting tired of social distancing measures. A recent ING survey showed that the Belgian population spent 8% less money during the July and August months compared to last year. While travel expenses evidently dropped significantly, restaurant expenses did however rebound to pre-crisis levels. Overall, economists fear the 'second degree' effects of the Covid-19 situation in which people are less optimistic about the future and will spend less.

While WTI oil kept on trading around the 40$ level, many other commodities saw nice price gains. Gold teased to break out of a decade long range but failed at the attempt. A "soft" commodity like lumber skyrocketed and the CRB index, which tracks 19 different commodities, kept rising from 140$ begin July to 160$ in mid-September.

It is estimated that the Euro Area's economy will grow 7.5% QoQ in Q3 and the US economy will grow 20% QoQ in Q3. China, the large economy that runs ahead in this Covid-19 cycle compared to Europe and the US already booked a 11.5% QoQ growth in Q2 while it is now estimated that the third quarter growth will be 0.6% QoQ.

Currency and Money Markets

While we wrote about the mighty dollar in our last report, its status is now very precarious. The dollar traded to about 1.20 against the euro in the past months, a level not seen since 2018. It has been debated that the fear of the dollar losing its reserve currency status as a result of an all too hot running money printing press, might be the reason for this decline. In the meantime, the dollar has climbed out from its throughs and trades again around 1.17 against the euro. In the money markets, not much has changed. Ultra-low yields still run the show.

Stock Markets

Table 1.1 - General

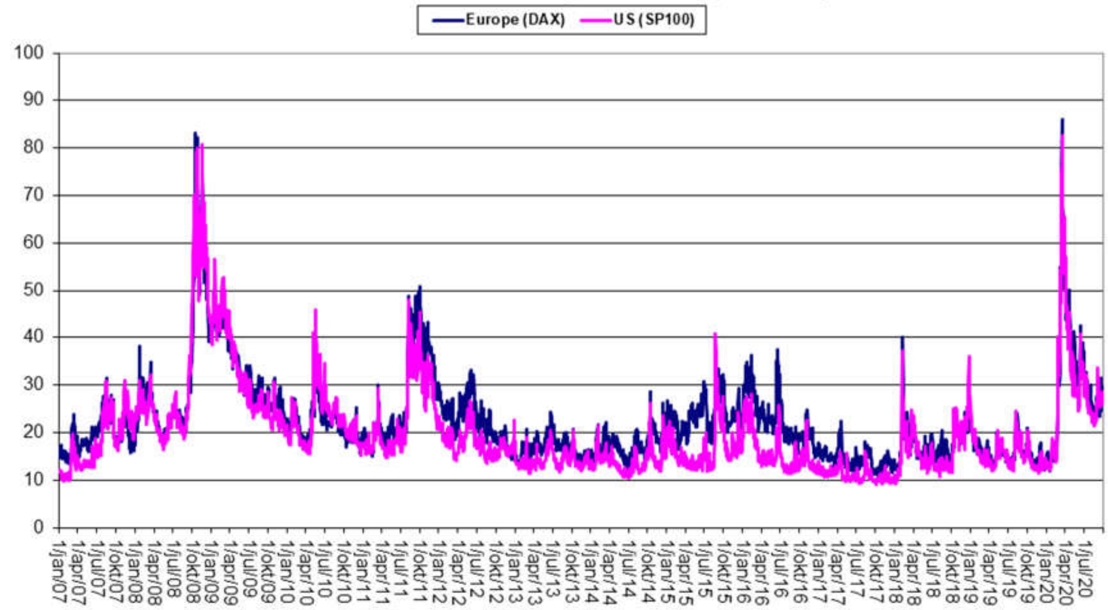
	30-Sep-20	30-Jun-20 - 3 mnth	31-Mar-20 - 6 mnth	31-Dec-19 - 9 mnth	30-Sep-19 - 12 mnth
AEX	547,70	-2,15%	13,29%	-9,41%	-5,61%
BEL20	3235,44	-2,78%	11,51%	-18,21%	-12,89%
DAX	12760,73	3,65%	28,43%	-3,69%	2,68%
EU50	3193,61	-1,25%	14,59%	-14,73%	-10,53%
DJ	23700,48	3,23%	8,14%	-16,95%	-11,95%
SP500	2868,96	4,04%	11,00%	-11,20%	-3,62%
Nasdaq	9526,97	6,49%	23,73%	6,18%	19,10%
EUR/USD	1,1721	4,34%	6,26%	4,52%	7,53%
Euribor 3 months	-0,498	-0,076	-0,135	-0,115	-0,080
NL govt 10 year	-0,405	-0,112	-0,188	-0,353	0,019

The US stock markets have continued their rising paths from Q2 into Q3. Most European indices kept hovering around their levels reached in the beginning of Q3 and well below levels reached at the beginning of this year. Within the indices, stocks that were battered during Q2 slowly crept up as economies reopened but as Covid-19 infections flared up in the last couple of weeks, those Covid-19 sensitive stocks have lost ground again. A working vaccine would lay most of investors' immediate worries to rest. Not all though. Next to the healthcare situation, the upcoming US election and especially the economic implication of the election result is an additional topic that many investors will watch very closely going forward. What is becoming clear after lockdowns have been lifted is that e-commerce continues to profit from the Covid-19 situation. The hurdle has been lifted for many people who were traditionally sceptical to buy online. Research shows that they will continue to use their newfound convenience.

Implied Volatility

Volatility has been hovering between 20 and 30 over the past months. Volatility hasn't been completely subdued like at the start of this year but except for a spike to 33 in the beginning of September, no fear has shown up in markets.

Table 1.2 Development of the implied volatility jan 07 - sep 20



The Long Term

The AEX index is trading just below its 200-day moving average again. The underlying economy is weak but recovering sharply from the horror quarter in 2020Q2. Central banks and governments will continue to support the economy and will step up their game if needed, as the FED's change in policy framework shows.

Table 1.3 Long-term development AEX jan 03 - sep 20