GENERAL INVESTMENT CLIMATE

The Economy

The fourth quarter of the year was characterized by a flare up of covid-19 infection rates since October. Countries in Europe opted for another lockdown albeit less strict than in the spring. Restaurants and all kinds of entertainment venues were ordered to close again. Sports games, on the other hand, restarted and continued to be played behind closed doors. Football, cycling and recently even the world championship darts were broadcasted on a tv channel to entertain people at home. The economy rebounded in the third quarter of 2020 and continued this path in the fourth quarter although at a slower pace. At the same time, the first positive newsflashes were published regarding a number of efficient vaccines being developed. At time of writing, some of these vaccines have been approved and are being rolled out. As could be expected, it does not go as fast as one would hope.

In the US, the elections dominated the news, even after weeks of the initial result announcements. Current President Trump was not planning to admit defeat easily and stated clearly that the elections had been rigged. Recently, a tape of a telephone conversation of the President and a Georgia official surfaced in which Trump pressured the official “to find votes”. Ironic. This anecdote to illustrate the relation between the Democrats and the Republicans on the other side of the big pond. After all, it was at that same time that they had to sit together and agree on an extra stimulus bill. It took them some time but eventually another handout of $900 billion was agreed on. Among others, this translates into a $600 stimulus check per American. Newly elected President Biden already suggested that this bill is just a start, and more is to come. The Modern Monetary Theorists seem to have convinced Washington, and to a lesser extent Brussels, of the absolute beauty of the money printer. The dollar reacted in lockstep.

In Europe, the Brexit saga finally came to an end and an agreement was announced at the very last minute. Despite long lines of trucks waiting at the border just before the end of the year – the result of stockpiling behaviour by worried companies – the border issues are so far not as dramatic as expected going into the new year. In many European countries, government aid has been extended again for companies that have been forced to close a second time, effectively softening the economic damage up to this point.

The central banks kept relatively quiet in recent months. No changes to interest rates have been made. Some say, strengthened by the significant rise in commodity prices, that this might change as inflation creeps up in the upcoming time. Others are of the opinion that the deflationary technology race is the dominant factor and inflation will not surface. Time will tell.

It is estimated that the Euro Area’s economy will shrink -2.3% QoQ in Q4 and the US economy will grow 4.2% QoQ in Q4. The difference is mainly related to the lockdowns implemented in Europe.

Currency and Money Markets

The dollar continued its downward trend versus other major currencies. The DXY index, an index of the value of the United States dollar relative to a basket of foreign currencies, is trading around 89.6 while it was trading at 104 in the first innings of the Covid-19 crisis. A drop of more than 15% in a less than a year. Pretty significant for the world's reserve currency. This dollar drop means that the euro is trading at 1.22 against the dollar today or close to a level not seen since 2014. At the same time, one notices that the Chinese Renminbi is slowly getting more and more accepted between international trading partners, especially Russia and China.

In the money markets, not much has changed. Ultra-low yields still run the show on the short end but the longer end of the curve is creeping up anticipating some type of inflation.

Stock Markets

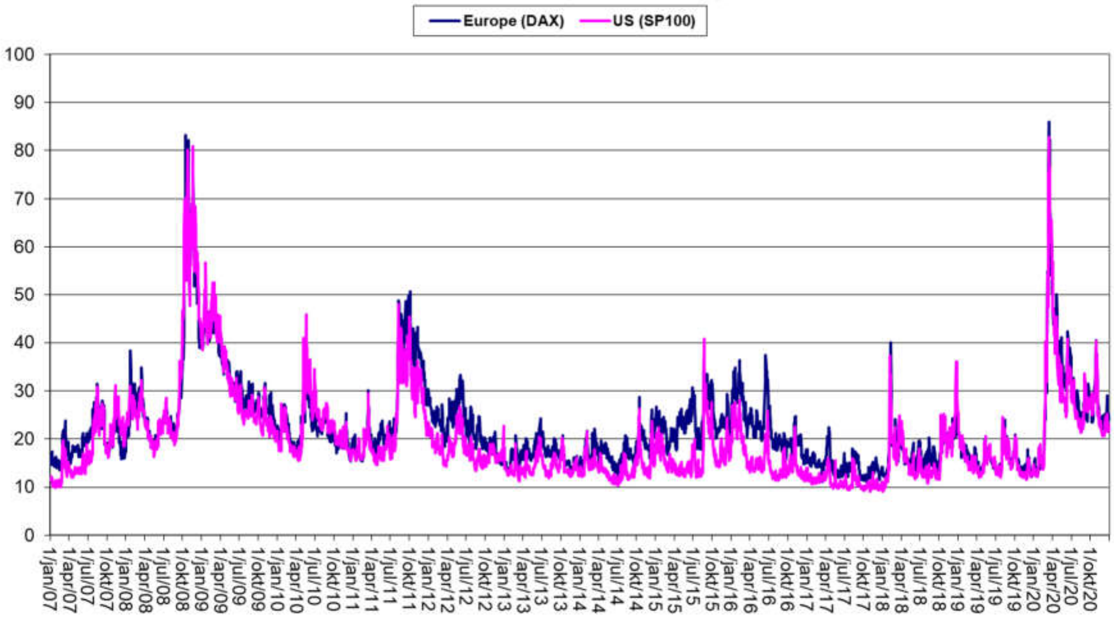
Table 1.1 - General

	31/dec/20	30/sep/20 - 3 mnth	30/jun/20 - 6 mnth	31/mrt/20 - 9 mnth	31/dec/19 - 12 mnth
AEX	624,61	14,04%	11,59%	29,20%	3,31%
BEL20	3621,28	11,93%	8,81%	24,80%	-8,46%
DAX	13718,78	7,51%	11,44%	38,07%	3,55%
EU50	3552,64	11,24%	9,85%	27,48%	-5,14%
DJ	30606,48	10,17%	18,57%	39,65%	7,25%
SP500	3756,07	11,69%	21,15%	45,33%	16,26%
Nasdaq	12888,28	15,41%	28,13%	67,38%	43,64%
EUR/USD	1,22	4,23%	8,75%	10,75%	8,94%
Euribor 3 months	-0,55	-0,05	-0,12	-0,18	-0,16
NL govt 10 year	-0,48	-0,08	-0,19	-0,27	-0,43

All-time highs! In many countries, the main indexes have reached all-time highs the last quarter of 2020. The American technology index seems to be leading this trend. Continuous capital injections and positive news on the effectiveness of covid-19 vaccines drove investors to buy up stocks. Even the, up until then, disregarded stocks of companies in the tourism and entertainment industry were picked up and rallied. The back to normal narrative is clearly being discounted by the stock markets. In Japan, the Nikkei rose above its 30-year high! In addition to the above factors, neither the US election nor the Brexit negotiations are weighing on the markets anymore. Sorrows seem to be moved to the background for the time being.

Implied Volatility
The volatility profile has hardly changed over the past months. It has continued hovering above 20 with sudden spikes towards the 30 level. Despite all-time highs and a seemingly decent amount of optimism in stock markets, volatility has not been completely subdued.

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



The Long Term
The AEX index is trading well above its 200-day moving average again. The underlying economy is not as strong as a year ago but recovering from the covid-19 crisis. On to a more normal and positive future!

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