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Investment Update 1st quarter 2021

The coronavirus continues to grab the headlines. In the first quarter of 2021, many countries even tightened the restrictive measures again. Strikingly enough, the prospects for the global economy have been adjusted upwards. This quarter thus also proved particularly good for equity investors. Several stock exchanges even reached record levels. There was less cause for celebration for bond investors, which was partly due to the increasing market rates. This investment report looks back and ahead.

Looking back at the economy

Feedback

Economists are becoming increasingly optimistic about the growth prospects of the global economy. Growth prospects were adjusted upwards both in January as well as in March to approximately 5.5% for 2021 and 4% for 2022. India, China and the US are expected to be the frontrunners in this. This optimism can partially be explained by two factors: the increasing vaccination coverage and the financial support measures by governments and central banks. These two factors also seem to be the main reason for the differences in growth expectations between countries and regions.

Differences in coronavirus vaccination policies

The US and the UK are clearly ahead of the EU in terms of their vaccination schedules. By the end of March, half of the UK adult population had been administered at least the first dose of the vaccination against the coronavirus. In the US this was 40% of the adult population and for Europe it comes to less than 15%. These percentages were even considerably lower in emerging countries such as Brazil and Russia.

Differences in stimulus packages

President Biden and Congress passed the third stimulus package in the US. This time with a value of USD 1.9 trillion, the magnitude of which is unprecedented. The approach greatly differs from the EU. In America, much of the aid goes directly to citizens to stimulate consumer spending, whereas the European stimulus package is much more focused on long-term investments. The American stimulus package has a much more direct and positive impact on economic growth. Moreover, no payments have as yet been made from the European package. In addition to the lagging vaccination coverage, this is another reason why expectations for European growth recovery are much more moderate than they are for the US.

Inflation expectations rising

The prospect of economic recovery, which has been fuelled by generous government budgetary policies, has raised inflation expectations. Rising inflation expectations may lead to a rapid increase in market rates, which could in turn seriously threaten economic recovery and potentially also equity markets.

There are no inflationary problems as yet. In the US, inflation has risen, however the core inflation, excluding volatile food and energy prices, has remained fairly stable. The rising inflation in the euro area can partly be attributed to incidental factors, such as the reversal of a previous VAT cut in Germany.

How did the financial markets perform?

The positive expectations for economic growth recovery, combined with increasing inflationary pressures, worked out particularly well for equity investors last quarter. Bond investors ended up with negative returns due to the interest rate increase on bond markets.

New records on the stock markets

Both the American S&P 500 index as well as the Dutch AEX index reached new record levels in March. Asian equities and equities in emerging countries rose less rapidly. Measured over the entire first quarter, the returns for all equity regions are between 5% and 10%. A striking aspect was that technology shares fared less well in March, as opposed to in previous months when they performed above average. One of the reasons for this is the market rate increase. These market rates are used to determine the current value of future profits. If interest rates increase, that current value drops.

Increasing interest rates

Since the beginning of 2021, the interest rates on the bond markets have been increasing. The price of a bond then moves in an opposite direction. A bond will then decrease in value because of the increasing market rate. In the preceding quarter, this particularly affected long-term government bonds.

The increasing interest rate levels also put pressure on the return of corporate bonds. The higher level of risk appetite among investors did however somewhat compensate this. The loss on European corporate bonds in February remained limited. The more risky high-yield corporate bonds even managed a slightly positive return.

Returns for the Employee Pension

The above mentioned developments are reflected in the returns of a.s.r.'s investment profiles.

Returns for a.s.r.'s investment profiles Employee Pension Q1 2021

Age	Defensive	Benchmark	Neutral	Benchmark	Aggressive	Benchmark
aged 45 years and younger	5.78%	5.74%	6.70%	6.66%	7.53%	7.57%
55 years of age	1.63%	1.61%	6.17%	6.14%	7.53%	7.57%
65 years of age	-3.30%	-3.31%	-2.01%	-2.05%	-1.07%	-1.09%

The returns shown have been calculated up to and including March 2021.

The returns shown are after deduction of fund costs but not including a.s.r.'s Employee Pension costs charged for investment administration.

The benchmarks for our investment profiles have been composed proportionally.

Past performance is no guarantee of future results. Still, we would like to try to offer a little more perspective by also showing long-term returns of our investment profiles.

Returns for a.s.r.'s investment profiles Employee Pension

Age	3-year return			5-year return		
	<i>Defensive</i>	<i>Neutral</i>	<i>Aggressive</i>	<i>Defensive</i>	<i>Neutral</i>	<i>Aggressive</i>
45 years of age	10.13%	11.22%	12.20%	8.41%	9.82%	10.85%
55 years of age	8.26%	10.28%	12.20%	6.73%	9.32%	10.85%
65 years of age	5.55%	6.62%	7.53%	3.91%	5.26%	6.66%

The returns shown have been calculated up to and including March 2021.

This table shows the average returns of the investment schemes corresponding to the investment profiles and ages indicated for the specified period. An example to illustrate this: suppose a participant is now 55 years of age and the table shows the 5-year returns. This means that the returns and investment schedules of the four years preceding 55 years have been included in the determination of this average return.

The increasing vaccination coverage will soon lead to a relaxation of the restrictive measures. For countries that are at the forefront of the vaccination process such as Israel, the UK and the US, releasing the lockdown seems to be a matter of weeks rather than months. Most EU countries can expect a gradual reopening as of the summer. It therefore seems highly likely to see a strong upturn of the global economy in the second half of 2021.

Inflationary problems?

There are compelling reasons to suspect that inflationary pressures will increase in the coming months. Though hardly reflected yet in consumer prices, the inflationary pressures experienced by businesses are already rising steadily. This has even led to a discussion among American economists questioning whether the hundreds of billions of dollars in additional government support will not give rise to an excessively high inflation.

As it stands, central banks do not appear to be too afraid of an impending inflationary problem. The US central bank already previously indicated that it entertains a broad interpretation of the inflation target of 2%, meaning they have expressed the expectation of not raising the US base rate until the end of 2023 at the earliest. The ECB is also not expected to raise the interest rate in the coming period, not even if European inflation comes close to the ECB target ('below, but close to 2%') for a somewhat longer period of time.

Our investment vision for the coming period

In our opinion, equities and corporate bonds continue to be more attractive than government bonds, at least for the time being. The reason for this has to do with the prospect of a strong economic recovery and the (slightly) rising inflationary pressures. Both asset classes will therefore be slightly overweight at the expense of government bonds in the coming quarter. Corporate bonds will be less overweight as we consider the increasing market rates to be a minor drawback. Needless to say, the course of the coronavirus will continue to be a crucial factor for economic recovery. We will therefore continue to keep a close eye on that, as well as on the rising inflationary pressures.

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