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Investment Update second quarter of 2021

Feedback

You had to do your best to achieve a negative return on the stock markets in the past six months. Prices rose worldwide on the stock markets. By contrast, returns on the bond markets were less positive due to rising interest rates. And although the coronavirus infection rate decreased in last quarter due to the growing number of vaccinations, new coronavirus variants and high inflation rates continue to cause uncertainty. In this investment update, we look back on past developments and at what is expected to lie ahead.

Kan ik je helpen?

Looking back at the economy

Getting better at vaccinating

The number of vaccinated people increased worldwide over the last quarter. Especially in the more developed countries. This has greatly improved the growth prospects of the global economy. China is still leading the pack. This is because the country was the first major economy to get the coronavirus under control. Other countries that were relatively quick to vaccinate, such as the United States and the United Kingdom, have also been showing signs of economic recovery for some time. In Europe, the vaccine rollout was a bit slow at first, but it has since caught up. This now also seems to be translating into accelerated economic recovery. For many less developed economies, such as those in South-East Asia and Africa, the picture is unfortunately still less favourable.

Rising consumer prices

Economies are recovering. This has also increased inflationary pressures. The economic recovery is causing scarcity in several markets. For example, on commodity markets, computer chip markets and in various sectors of the job market. This scarcity, in turn, is driving up prices and wages. In Europe, for example, inflation was still below 0% at the beginning of 2021 and has since risen to 2%. In the United States it has gone even faster. Inflation there is now 5%, the highest level recorded since the summer of 2008.

However, the increase in consumer prices is partly due to the method of calculation. Inflation rates are calculated year-on-year; the current prices are compared with those of a year earlier. And a year ago, were at the lowest point in the coronavirus crisis economically speaking, so prices were low. This may therefore temporarily lead to high inflation rates.

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How did the financial markets perform?

Equity markets are looking ahead

Equity markets are responding to the global economic recovery. After taking a breather in May, stock markets resumed the upward trend in June. Both in Europe (+7%) and the United States (+7%), share prices rose sharply in the past quarter. American stock exchanges even rose to new record highs in June. The AEX, our main index in Amsterdam, was also an outlier internationally. Emerging markets lagged slightly with returns of around 3%.

Bond markets suffer from rising interest rates

After a long period of lower interest rates, market interest rates have edged up (slightly) in recent months. This has an adverse effect on bond prices. The various sub-categories, such as government bonds and (high-yield) corporate bonds, did not differ much last quarter in terms of yields. Monthly yields were lightly positive, but measured over the whole of 2021, yields of longer-term (government) bonds, in particular, were negative.

Returns for the Employee Pension

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

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Age	Defensive	Benchmark	Neutral	Benchmark	Aggressive	Benchmark
aged 45 and under	10.89%	10.52%	12.49%	12.08%	13.92%	13.59%
55 years of age	4.36%	4.11%	11.58%	11.19%	13.92%	13.59%
65 years of age	-3.24%	-3.35%	-1.03%	-1.21%	0.50%	0.32%

The returns shown have been calculated up to and including June 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 insight by also showing long-term returns of our investment profiles.

	3-year return			5-year return		
Age	Defensive	Neutral	Aggresive	Defensive	Neutral	[illegible]
45 years of age	10,39%	11,45%	12,40%	9,09%	10,66%	11,90%
55 years of age	8,22%	10,75%	12,40%	6,84%	10,21%	11,90%

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	3-year return			**5-year return**		
65 years of age	5,12%	6,92%	8,08%	3,07%	5,08%	6,95%

The returns shown have been calculated up to and including June 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 return. 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.

Outlook

New coronavirus variants

The big question is what will happen once autumn is upon us. Assuming the vaccination rate has increased worldwide by then, further global economic recovery seems likely. But new variants of the coronavirus already emerging and could throw a spanner in the works. These variants are therefore a major risk factor.

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Phasing out stimulus

Another risk factor is the possible phasing out of government stimulus measures. These measures ensured that the damage to the global economy remained relatively limited last year. However, as national debts rise, governments are more likely to at some point feel committed (or even compelled) to phase out these measures after the recovery phase.

We are, however, seeing a shift from income support measures to more long-term government investments. These include the European Union's Next Generation EU programme and the Biden administration's infrastructure plan in the United States. Thus, it seems as if governments will remain an important driver of economic growth in the long run, as well.

Are high inflation rates temporary?

Rising inflation rates also pose a risk. At present, we attribute high inflation rates in part to the year-on-year effect. We compare the current prices with last year's low. But the scarcity that causes prices and wages to rise could be less temporary than currently thought. This is because scarcity, especially in the job market, is normally only a problem when the economy is booming. And not when it is at the beginning of a recovery period, as it is now. The energy transition may also cause scarcity and increased price pressure in the coming years, for example in the markets for certain metals.

Liberal monetary policy

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The extremely liberal monetary policy pursued by governments has also contributed to the high inflation rates. This is reflected not only in higher consumer prices, but also in prices on the stock and housing markets. For the time being, the major central banks believe that much of the current inflation is temporary in nature. And that the economic recovery is still too fragile to raise base interest rates. As a result, rate

hikes are not expected in the short term.

It is more likely that central banks will reverse their bond-buying policies that were aimed at pumping money into the economy to stimulate it. Should this happen, we expect it to be done very gradually. The last time the Fed announced it was tapering off bond-buying (in 2013), it led to much higher capital market interest rates in the financial markets. The Fed, and also the ECB, will certainly try to avoid triggering such a strong market reaction this time round.

Vision of a.s.r.

At a.s.r., we expect 'reflation' to remain the main theme for the financial markets. Reflation means stimulating the economy by increasing the money supply. This is in principle favourable for relatively risky asset classes such as shares and unfavourable for government bonds.

The combination of higher interest rates and an increase in share prices caused a (slight) change in the valuation of various asset classes in the first half of 2021. Equities have become slightly more expensive and government bonds slightly cheaper. Corporate bonds also appear to be the most vulnerable when interest rates are rising. Therefore, we are more reserved in our preferences for the next quarter. Whereas we previously had a slight preference for equities and corporate bonds at the expense of government bonds, we now only have this preference for equities.

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