Investment update 3rd quarter 2020

A “V-shaped” economic recovery appears to be underway, after the global economy experienced its deepest recession since World War II in the first half of 2020. Investors can look back on a largely positive third quarter, even though (U.S.) stocks in particular took a step back in September. With this, financial markets seem to have already priced in more uncertain times ahead. After all, the U.S. presidential election, Brexit, and the coronavirus will continue to dominate the global economy in the coming quarter.

Looking back at the economy

In the first half of 2020, the global economy experienced its deepest recession since World War II. Nevertheless, a “V-shaped” (strong and rapid) recovery in growth appears to have begun. In the U.S., Europe, and China alike, indicators of producer confidence (an index measuring sentiment among industrial manufacturers) have now returned to levels suggesting above-average growth. It should be noted, however, that the upward slope of the ”V” is far from complete. The most recent macroeconomic indicators suggest that the initial rapid recovery phase is already behind us. And that we have now entered a phase of more gradual recovery. The most likely scenario therefore appears to be that the global economy will not return to the level seen at the end of 2019—before the coronavirus outbreak—until sometime in 2022.

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Eased inflationary pressure

The economic impact of the coronavirus crisis is not only reflected in the growth figures; it has also led to a decline in inflationary pressure, particularly in Europe. In September, inflation here remained below 0% for the second month in a row. This is partly due to lower oil prices, but mainly due to the economic downturn and the appreciation of the euro in recent months. In the U.S., too, subdued economic growth is holding down inflation, but there the relative weakening of the U.S. dollar is providing some counterbalance through import inflation.

How to control inflation?

In the eyes of central bankers, inflation is still too low. But short-term interest rates—the most common tool for controlling inflation—cannot be lowered much further. And the limits of quantitative easing (buying securities, such as government bonds, from commercial banks to stimulate the economy) have already been stretched quite far. Central banks are looking for new ways to steer inflation expectations. The Fed (the U.S. central bank) has taken the lead in this regard. The 2% inflation target in the U.S. is being relaxed; if inflation remains below 2% for a period of time, the Fed will not raise interest rates until inflation has subsequently remained above 2% for an extended period. This suggests that the Fed will raise the U.S. benchmark interest rate later than previously anticipated.

Pressure on the ECB

Deze aankondiging legt extra druk op de ECB (Europese Centrale Bank) om ook de inflatiedoelstelling van 'onder, maar dichtbij 2%' aan te passen. Door middel van extreme monetaire verruiming (verhogen geldhoeveelheid) is het de ECB de afgelopen jaren niet gelukt om langere tijd ook maar in de buurt te komen van deze doelstelling. ECB-voorzitter Christine Lagarde heeft er recent op gehint dat het goed mogelijk is dat het monetaire beleid van de ECB vergelijkbaar zal zijn met dat van de Fed.

How did the financial markets perform?

Investors can look back on a largely positive third quarter for the financial markets. Most asset classes (including both stocks and bonds) ended the quarter in positive territory.

Stock Markets

However, after a strong recovery in April and May, followed by a slight rise during the summer months, stock markets (particularly in the U.S. and Europe) took a step back in September. In the U.S., technology stocks were hit particularly hard, despite having outperformed the market average significantly so far this year. Volatility also rose slightly in September, though it remained well below the panic levels seen in March of this year. This suggests that stock markets may have already priced in more uncertain and/or favorable times last month (see box “Outlook”).

Bond Markets

Measures taken by central banks and governments have had a significant impact on the bond market. Central bank purchase programs and the decline in capital market interest rates contributed to the positive returns on (long-term) government bonds over the past quarter. Partly thanks to government stimulus packages, risk premiums on corporate bonds have fallen (further). This has had a positive effect on corporate bond yields.

Returns for the Employee Pension

These developments are also reflected in the year-to-date returns of the a.s.r. Employee Pension Fund, particularly as the retirement date approaches. At that point, a greater proportion of the portfolio is invested in corporate and government bonds.

Age	Defensive	Benchmark	Neutral	Benchmark	Agressive	Benchmark
45 years and younger	**-3,05 %**	-4,35 %	**-3,45 %**	-5,04 %	**-3,86 %**	-5,70 %
55 years	**0,92 %**	-0,03 %	**-3,02 %**	-4,52 %	**-3,86 %**	-5,70 %
65 years	**5,33 %**	4,93 %	**4,34 %**	3,71 %	**3,66 %**	2,83 %

The returns shown are calculated through September 2020.
The returns shown are net of fund and transaction costs but exclude the investment administration fees charged by a.s.r. Employer Pension.
The benchmarks for our investment profiles are pro-rated. This is because all underlying funds have their own relevant benchmark. For example, the benchmark for the ASR America Equity Base Fund is the MSCI US Index.

Outlook

An ABC for the fourth quarter: the American elections, Brexit, and the coronavirus.

Economen gaan nog steeds uit van het herstel van de wereldeconomie. Maar dat scenario lijkt de komende tijd wel meer omgeven door neerwaartse risico's. Zo kan de coronacrisis weer oplaaien. En we beschreven al de precaire situatie in opkomende landen. Daarnaast zien we nog een aantal risico's.

American elections

The U.S. presidential election on November 3 could also pose a risk to the global economy and lead to above-average volatility in the financial markets. Normally, the impact of such an event on the economy and financial markets is limited. But in this year of crisis, things may be different. Social unrest in the run-up to the election, the uncertain outcome, and the incumbent candidate's suggestion that he may not accept the results are all contributing to heightened uncertainty. It is unclear how financial markets will react to the election results.

Brexit

A third risk concerns the protracted Brexit process, for which a new deadline is approaching on December 31. That is when the negotiated agreement on future relations between the EU and the United Kingdom is supposed to take effect. So far, no concrete agreement has been reached. It is even unclear how much importance the British government, in particular, attaches to having a treaty in place by the end of 2020. The Johnson government has recently backtracked on parts of last year's withdrawal agreement. This does not bode well in that regard. The general expectation is that if the negotiations fail, this will be particularly damaging to the British economy. However, in that scenario, EU member states—and within the EU, particularly Ireland and the Netherlands—will also suffer economic consequences.

A wait-and-see attitude

Financial markets appear to have already priced in more uncertain and/or favorable times in September. For the coming months, we anticipate that financial markets will adopt a wait-and-see attitude in the run-up to the U.S. presidential election and the Brexit deadline. Periods of heightened volatility cannot be ruled out. What is certain is that there is no end in sight for central banks' monetary easing for the time being. This is expected to keep a downward pressure on interest rates. At the same time, central banks' asset purchase programs remain favorable for the price performance of corporate bonds. This asset class therefore currently appears to be the most attractive relative to others and is consequently slightly overweighted in our investment portfolio.