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Investment Update 4th quarter 2020

Looking back at the economy

The year fared less badly than expected

In spite of an upsurge in the coronavirus in the autumn, the damage to the global economy in 2020 was limited on balance. This was mainly due to the rapid recovery of the economies in Asia. They were less affected by the coronavirus than most other regions, including Europe and the United States. The governments of Asian economies seem to have effectively cut the virus short at an earlier stage.

Feedback

Economic figures continued to point towards further economic recovery well into the fourth quarter, which is striking considering the second wave of the coronavirus led to an increasing number of lockdowns towards the end of 2020. It may therefore be expected that economic figures will show a downturn in the short term. This is expected to particularly apply to the regions of Europe and the United States, as they have been hit hard. And within all regions involving the provision of services, whereby subsectors such as the hospitality industry, tourism and transport are relatively much more affected than, for example, the (manufacturing) industry.

Low inflation, low interest

Inflation remained unchanged and at a continued low level in the preceding quarter. This is certainly true for Europe, where inflation has remained stable at -0.3% per annum for three months in a row now. Core inflation (excluding volatile food and energy prices) has also remained low, but at 0.2% per annum only just positive. In absolute terms, inflation is still higher in the United States than in Europe (1.2% on an annual basis), but it has fallen slightly in recent months. Even China is faced with deflation: -0.5% per year. As a result of an outbreak of classical swine fever last year, inflation in China had risen at the beginning of this year. Now that this swine fever crisis has been overcome, a temporary opposite effect on inflation is (expected) to be visible.

The low inflationary pressure gives central bankers worldwide little reason to consider raising interest rates in the short term. The most plausible scenario is that central banks will continue their current policies. It is expected that the focus will still be on the continuation of current buy-back programmes rather than on any further interest rate cuts.

How were the financial markets performing?

Positive returns

The fourth quarter of 2020 delivered positive returns for investors across all asset classes, especially equities. Financial markets generally focus on six-month forecasts and seem to expect economic recovery. The best-performing asset classes in the preceding quarter were emerging market equities and European equities. The US stock market developed relatively moderately. This was mainly due to the exchange rate of the US dollar, which depreciated vis-à-vis the euro.

The positive returns for bond investors are partly due to the positive sentiment at the stock markets. Corporate bonds benefited from this, whereby the riskier high-yield corporate bonds outperformed the relatively safer investment grade corporate bonds. In addition, lower interest rates also led to higher bond prices in the preceding quarter.

A remarkably good year for the stock market

As a whole, the year 2020 proved to be a remarkably good year for the stock market. Especially given the coronavirus pandemic and other risk factors, such as the elections in the United States and developments surrounding Brexit. Almost all asset classes resulted in positive returns last year. Ranging from 2-3% for corporate bonds, 5% for government bonds to 6-10% for equities. The European equities were the only exception to the above. The positive returns from the fourth quarter could not make up for the losses earlier this year.

Returns for the Employee Pension

The above developments are also reflected in the returns on a.s.r.'s Employee Pension. Since November this year, the returns for 2020 have been positive for every age bracket.

Returns for a.s.r.'s investment profiles Employee Pension 2020

Age	Defensive	Benchmark	Neutral	Benchmark	Offensive	Benchmark
aged 45 years and younger	4.42%	3.35%	4.76%	3.42%	5.08%	3.53%
55 years of age	6.39%	5.52%	4.83%	3.58%	5.08%	3.53%
65 years of age	7.97%	7.46%	8.32%	7.68%	8.45%	7.68%

The returns shown have been calculated up to and including December 2020.

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. All underlying funds have their own relevant benchmark. For the ASR America Equity Basis Fund (ASR Amerika Aandelen Basisfonds), for example, this is the MSCI US Index.

Past performance is no guarantee of future results. Still, we would like to try to offer a little more perspective from now on 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	7.13%	7.73%	8.28%	6.96%	7.69%	8.20%
55 years of age	7.45%	7.47%	8.28%	6.76%	7.43%	8.20%
65 years of age	7.14%	7.75%	8.28%	5.88%	6.60%	7.27%

The returns shown have been calculated up to and including December 2020.

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

It is expected that the most dominant theme for the first months of 2021 will continue to be the prevention of the spread of the coronavirus. From a macroeconomic perspective, however, 2021 looks set to be a year of further recovery. As vaccination coverage increases throughout the year, economies can benefit from the

delayed demand for products and services. In addition, the positive effects of the large-scale government stimulus packages will be felt in countries of the European Union and the United States.

Stimulus packages

Despite initial opposition from outgoing President Trump, a second stimulus package to the value of USD 900 billion was passed by the US Congress in the fourth quarter of 2020. Upon Joe Biden taking office, more economic-relief measures are to be expected. Especially now that it has become clear in the first month of 2021 that the Democrats have also obtained a practical majority in the Senate. In the European Union, a tax-efficient stimulus package to the value of EUR 750 billion was adopted just before Christmas. For a while, the resistance of Poland and Hungary seemed to stand in the way of an agreement, but as has become customary in the European Union, after some wrangling an agreement was reached after all.

Will emerging markets and Asia be the winners of 2021?

A major contribution to the global economic recovery in 2021 is expected to come from emerging markets. Whereas the IMF (International Monetary Fund) forecasts growth of around 4% for developing economies in 2021 (after a contraction of almost 6% in 2020), it predicts a 6% growth on average for emerging economies (after a contraction of 'only' 3.3% in 2020). As it stands, the emerging economies in Asia will, relatively speaking, be the largest contributors to this growth, with China and India taking the lead. Developed countries in that region, such as Japan and Australia, may benefit from the strong growth in emerging Asia. For other emerging countries and regions, such as Russia, South Africa and Latin America, the outlook is considerably less favourable. Incidentally, the IMF assumes that the global economy as a whole will have more or less fully recovered from the damage caused by the coronavirus by the end of 2021.

Preference for equities and corporate bonds

In our view, the expected economic recovery in 2021 continues to argue for an above-average allocation to relatively risky asset classes, such as equities and corporate bonds. The prices of these asset classes have already significantly anticipated this recovery in 2020, with the result that the return expectations for almost all investments are now moderately positive at best. At this point in time, government bonds will continue to benefit from the combination of low inflation and very loose monetary policies from central banks, particularly through the various buy-back programmes. But as economic recovery continues, the sentiment towards inflation and interest rate may turn. This poses a risk to the price development of government bonds. In our investment portfolio, equities and corporate bonds are therefore currently slightly overweight at the expense of government bonds.

The investment returns shown on this page have been carefully prepared by a.s.r.

Errors and omissions excepted.

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Alles over personeel

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