

GENERAL INVESTMENT CLIMATE

The Economy

A quarter for the history books, that much is clear. All the political disputes like the ‘Brexit’ and the ‘Trade War’ we were bombarded with at the end of 2019 have been engulfed by a ruthless Corona virus (Covid-19) not sparing anything or anyone. What started as an outbreak in a distant, Chinese province unknown to many, has morphed into a pandemic. Today, the Covid-19 infections seem to stagnate in Europe and we all hope the peak has been reached. In the United States and other parts of the world however, we regrettably don’t see stagnation yet. De measures enforced as a result of the virus have a serious impact on the economy. Christine Lagarde, the newly appointed head of the ECB, feared on the 18th of March that the Euro zone economy could shrink by 5% this year. Economist of JPMorgan and Goldman Sachs expect a negative global growth of 1%. It doesn’t need argumentation that these expectations are all subject to rapidly changing probabilities. What is a certainty however is that the number of Americans that filed for jobless claims in the week ending on the 28th of March rose to a staggering 6.6 million. In comparison, the record during the Great Financial Crisis was 665.000 claims filed in March 2009. In Europe, the picture is no different. One would almost forget that President Trump found a new tariff war victim in the EU.

The governments and central banks thus had to act quickly in order to support the economy. The FED announced, next to rate cuts to 0%, “unlimited quantitative easing”. In practice, this translates into a purchase program of government bonds, expanded by, amongst others, corporate bonds and ‘asset backed securities’ consisting of student-, car- and credit card loans. Let us hope that these loans will be serviced as planned. In addition to FED interventions, the fiscal stimulus of the Trump administration is substantial as well. A \$2 trillion stimulus package will be passed. In Europe, the ECB did her part by announcing an additional 750 billion euro purchase program on top of the €120 billion stimulus announced a week earlier. That money is available to purchase government and corporate bonds. The fiscal stimulus on European level is still lagging though. The focus is on the home country first.

If this Covid-19 shock wasn’t enough yet, the oil prices tumbled as a result of quarrel between Russia and Saudi Arabia (and by extension the OPEC) on the desired production volumes in times of Corona. The price of Brent plummeted from \$69 in January to \$25 in March. After recent interference by President Trump, who doesn’t like to see his shale oil sector go bankrupt, a barrel of Brent can be bought for \$33.

In the Euro zone, the growth expectations for the first quarter of 2020 are revised downward to -2% whereas we still booked 0.1% growth in 2019Q4. In the US growth in 2019Q4 was a firm 2.1% but expectations for 2020Q1 have been equally revised downward to -5%. Inflation measured 0.7% in March in the Euro zone and 2.3% in February in the US.

Currency and Money Markets

In the currency markets we saw a lot of the same volatility that gripped all other markets. The dollar and the euro entertained with a game of yo-yo. In the beginning of March, the euro chalked up 1.14 dollar. Two weeks later that same euro marked 1.07 dollar, shot back up to 1.12 dollar as a result of 'FED swap lines' to trade at 1.08 dollar today. The pound too lost some ground versus the dollar in that same time span. Where the pound traded at 1.30 dollar in the beginning of March, it fell back to 1.15 dollar at the end of March to trade at 1.23 dollar today. A strong dollar and volatility trumps.

Stock Markets

Table 1.1 - General

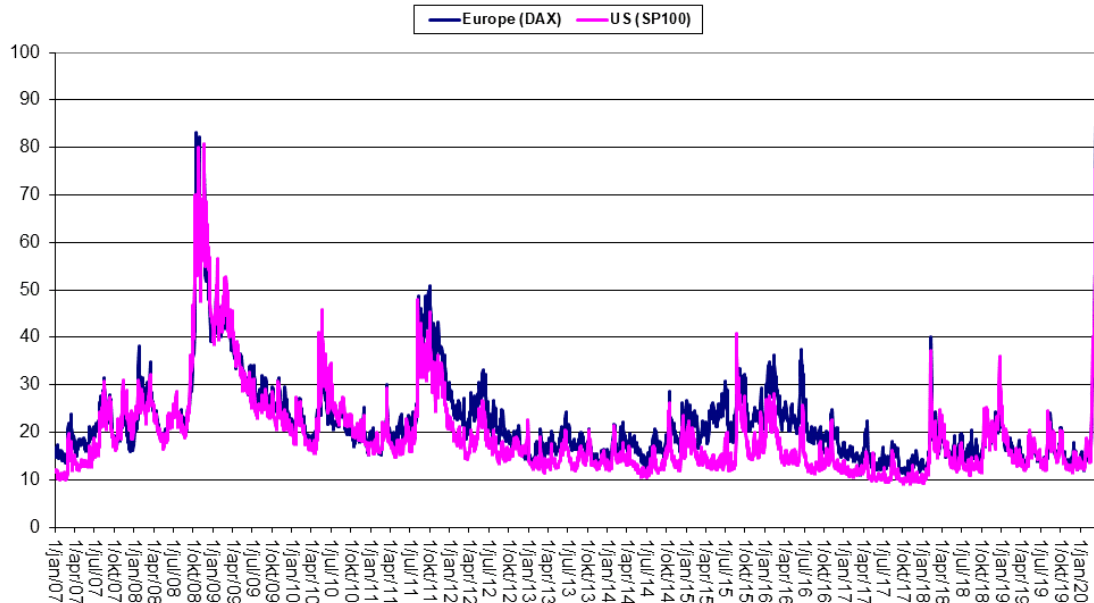
	31-Mar-20	31-Dec-19 - 3 mnth	30-Sep-19 - 6 mnth	30-Jun-19 - 9 mnth	31-Mar-19 - 12 mnth
AEX	483.44	-20.04%	-16.68%	-13.94%	-11.94%
BEL20	2901.58	-26.65%	-21.88%	-18.21%	-20.69%
DAX	9935.84	-25.01%	-20.05%	-19.86%	-13.80%
EU50	2786.90	-25.59%	-21.92%	-19.77%	-16.85%
DJ	21917.16	-23.20%	-18.57%	-17.60%	-15.47%
SP500	2584.59	-20.00%	-13.17%	-12.14%	-8.81%
Nasdaq	7700.10	-14.18%	-3.74%	-3.82%	-0.38%
EUR/USD	1.1031	-1.63%	1.20%	-2.96%	-1.66%
Euribor 3 months	-0.363	0.020	0.055	-0.018	-0.052
NL govt 10 year	-0.217	-0.165	0.207	-0.061	-0.249

After the impressive rally we saw in the fourth quarter of 2019, stock markets have given in. The recession clouds seemed to have had disappeared, the trade war between the US and China was temporarily settled through a 'phase 1 deal' and the Brexit would finally be completed under Johnson. Stock markets in Europe and the US sprinted to new all time highs. Until Italy announced measures in order to contain the Covid-19 spread. It started dawning on the financial world that this virus wouldn't stay in China. Stocks were rapidly swapped for so called safe havens like treasuries and gold. At first, the travel industry got beaten up but it soon became clear that other sectors would feel the consequences as well. The lockdown that many European countries, and later the US declared, would hurt the economy as a whole. By now, the AEX trades about 20% lower and the DAX doesn't do any better with a loss of 25%. Contrary to what one might think, not every stock has been thrown out with the bathwater. Especially pharmacy, online retailers and food related industries do well in these circumstances. Companies that facilitate so called 'smart work' also lay golden eggs these days. Apparently alcohol does well too. Nielsen reported a sales increase of 55% in the US of which online alcohol sales increased 243%.

Implied Volatility

The historically low volatility seen up until recently belongs to the past. The VIX rose in March to just above the peak reached in 2008 and has, in the meantime, settled back in between the two extremes.

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



The Long Term

Just like the other indices, the AEX had a weak quarter. The Dutch index did not fall as fast as its European peers however. This can be attributed to the fact that these countries' greater dependence on industrial exports meant they had more to lose from a general economic slowdown.

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

