Focus

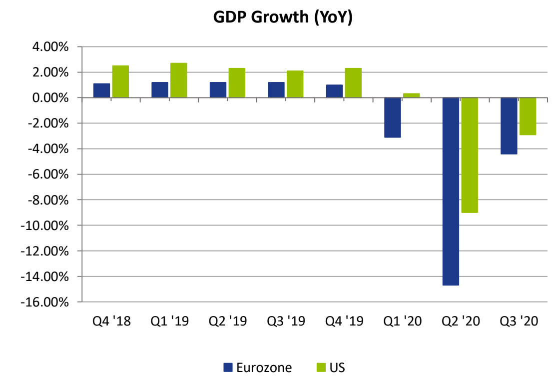
The global economy has been impacted severely by the corona crisis. After a slight recovery in Q3 of 2020, the fear is that the fourth quarter (as a result of the second wave) will result in economic contraction. However, this sentiment cannot be observed on the stock markets. The S&P500 has broken several records, while share prices in Europe are also showing signs of recovery. Critics therefore warn that investors have lost grip on reality and that a sharp correction of prices is imminent. Stock market analysts, however, indicate that current stock prices are a true reflection of company value. Is there a mismatch between stock exchanges and the real economy? Or is the discrepancy not as great as the critics indicate, and are there logical explanations?

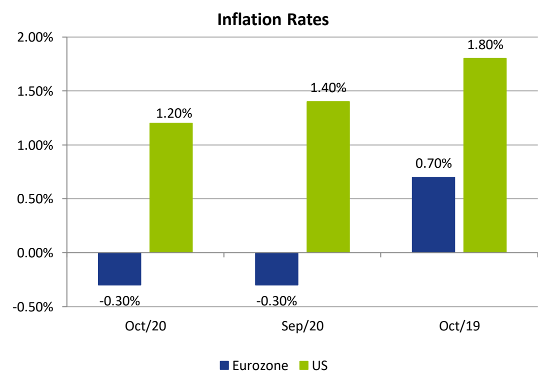
The graph on the right shows indices of two major stock market indices from the US and Europe and economic growth in the US and the eurozone, up to and including the end of Q3 2020. The starting point is the end of 2018 (2018 = 100). The impact of corona on the stock market in early 2020 is clear; in March 2020 the indices took a dive. Economic growth in Europe and the US also turned out negative in Q1 2020, partly due to the measures announced in March 2020. But where the stock markets started to rise again fairly quickly, the economies recovered more slowly. Only in the third quarter did the economies show signs of recovery again, although they have not yet returned to the level of before the corona crisis. The same applies to the prices of the largest listed companies in Europe, but the S&P 500 has recovered rapidly and has now set a new record in November. On the other hand, due to the second corona wave, it is highly uncertain whether the economic recovery of Q3 2020 will continue.

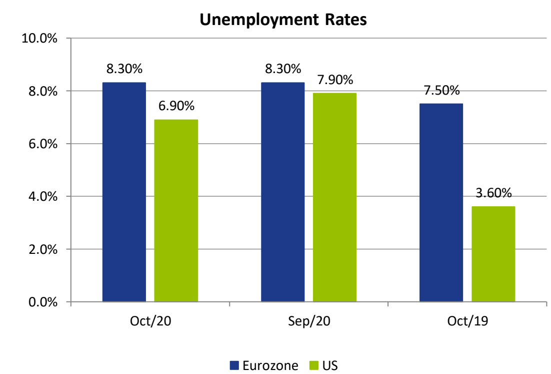
How can the rising stock prices after the dip in March be explained? Analysts point to two causes. The first is the composition of the stock market indices worldwide. Tech companies have grown enormously in recent decades due to increased digitization. Because tech companies have become so large, many stock market indices in the world are significantly affected by the value development of "big tech". The corona crisis has had a significant positive impact on the prices of these companies. As a result, the indices of the major stock exchanges are rising, despite the fact that "traditional" companies have lost significantly in value. This trend can also be observed to a lesser extent in the Netherlands, referring to Adyen for example.

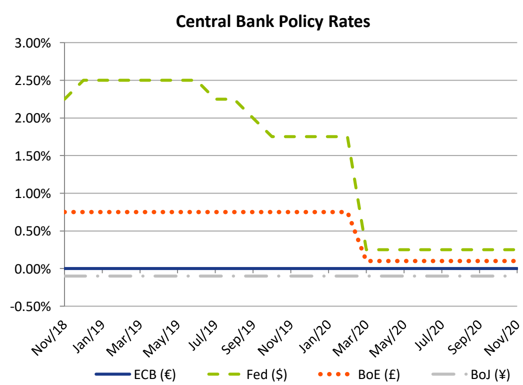
The second cause lies in the policy of the central banks. The ECB, the Federal Reserve and other central banks have set up major buying programs to support the economy. This loose monetary policy, combined with historically low interest rates, gives investors less incentive to take their portfolios off the stock market. Other factors also play a role, such as the government aid packages that many companies receive, and the fact that many people saw the dip in March as an opportunity to enter the stock markets.

The coming months will show whether the indices will show a downward trend. For example, the impact of the second wave on the economy is still unknown. When looking at the stock markets, it remains to be seen whether there will be a correction. This will be largely determined by the remaining duration of the corona crisis and the monetary policy of central banks.









Country Ratings	S&P	Moody's	Fitch
Netherlands	AAA	Aaa	AAA
Germany	AAA	Aaa	AAA
France	AA	Aa2	AA
United Kingdom	AA	Aa3	AA-
Russia	BBB-	Baa3	BBB
United States	AA+	Aaa	AAA
Japan	A+	A1	A
China	A+	A1	A+
Australia	AAA	Aaa	AAA

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Review & preview

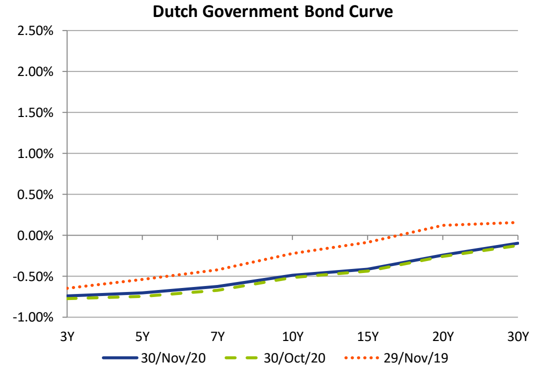
In November, Pfizer was the first pharmaceutical company to publish positive phase-3 test results for a corona vaccine. Furthermore, it was indicated that the vaccine can become available to the public within a few months. The following week, pharmacist Moderna presented the same news regarding their own vaccine, followed by several other pharmaceutical companies. The news of a possible vaccin led to a rally in the stock markets. Particularly, stocks of companies severely impacted by the corona crisis rose significantly. On the contrary, the value of technology companies, which in recent times have often benefited from the effects of the corona crisis, decreased.

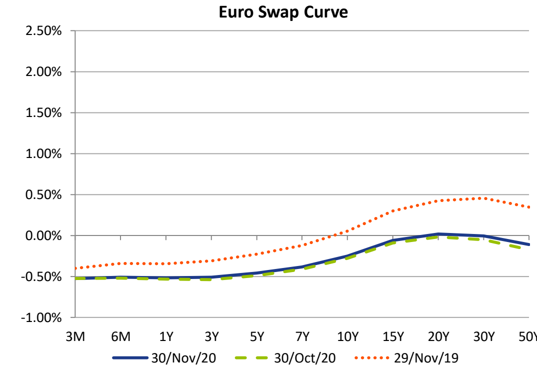
Japan, China, South Korea, Australia, New Zealand and ten other countries in South-East Asia have entered into a trade agreement. The so-called Regional Comprehensive Economic Partnership (RCEP) aims to gradually reduce trade tariffs in the region and create a free trade zone. Negotiations have lasted eight years and the agreement will become to the largest trade pact in the world. The trade zone covers almost one-third of the world's population. The participating countries primarily hope that the agreement will stimulate economic recovery from the corona crisis. Many of the changes in trade tariffs will be spread over a period of 20 years. Rights of individual workers, environmental matters and intellectual property are not part of the RCEP agreement.

New estimates published by the European Commission show that the economy in the eurozone will contract by 7.8% in 2020. For 2021 and 2022, the European Commission expects a growth of 4.2% and 3.0% respectively. In the previous forecast in July 2020, the European Commission assumed a contraction of 8.7% of the economy in 2020. The Netherlands Bureau for Economic Policy Analysis (CPB) expects the Dutch economy to be impacted less severely than other countries in the eurozone. For 2020, the CPB expects the Dutch economy to contract by 4.2%, while it forecasts a growth of 2.8% for 2021. This estimate is based on the assumption that a corona vaccine will be available on a large scale by the middle of next year.

Agenda

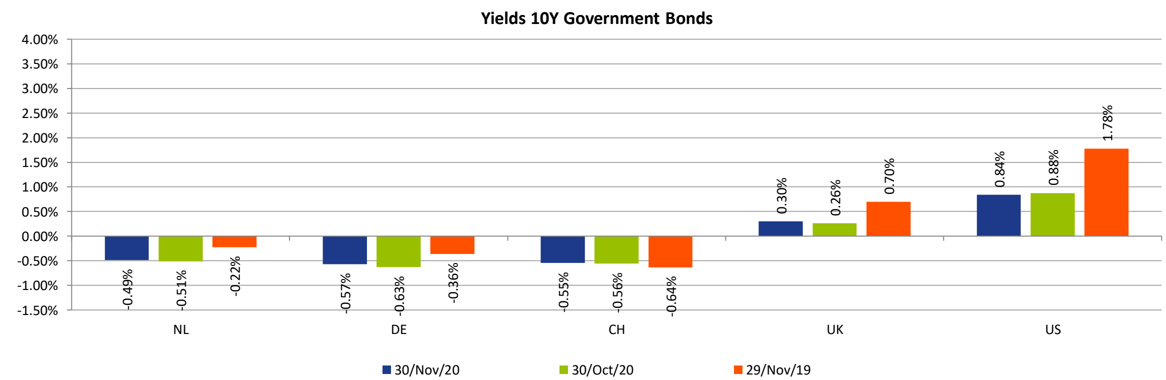
8 December Inflation Netherlands
10 December Inflation US
10 December Interest rate decision ECB
16 December Inflation UK
16 December Interest rate decision Fed
17 December Interest rate decision BoE





Bank Ratings	S&P	Moody's	Fitch
Rabobank	A+	Aa3	A+
ING Bank	A+	Aa3	AA-
ABN AMRO	A	A1	A
BNG Bank	AAA	Aaa	AAA
NWB Bank	AAA	Aaa	n.a.
Deutsche Bank	BBB+	A3	BBB
BNP Paribas	A+	Aa3	AA-
Barclays Bank	A	A1	A+
Credit Suisse Int.	A+	Aa3	A

Currencies	30/Nov/20	30/Oct/20	29/Nov/19
EUR/USD	1.193	1.165	1.102
EUR/GBP	0.895	0.900	0.852
EUR/CHF	1.084	1.068	1.102
EUR/JPY	124.415	121.930	120.615
EUR/DKK	7.443	7.445	7.472
EUR/SEK	10.228	10.364	10.555
EUR/CAD	1.551	1.552	1.463
EUR/AUD	1.624	1.657	1.629
EUR/CNY	7.846	7.796	7.749



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