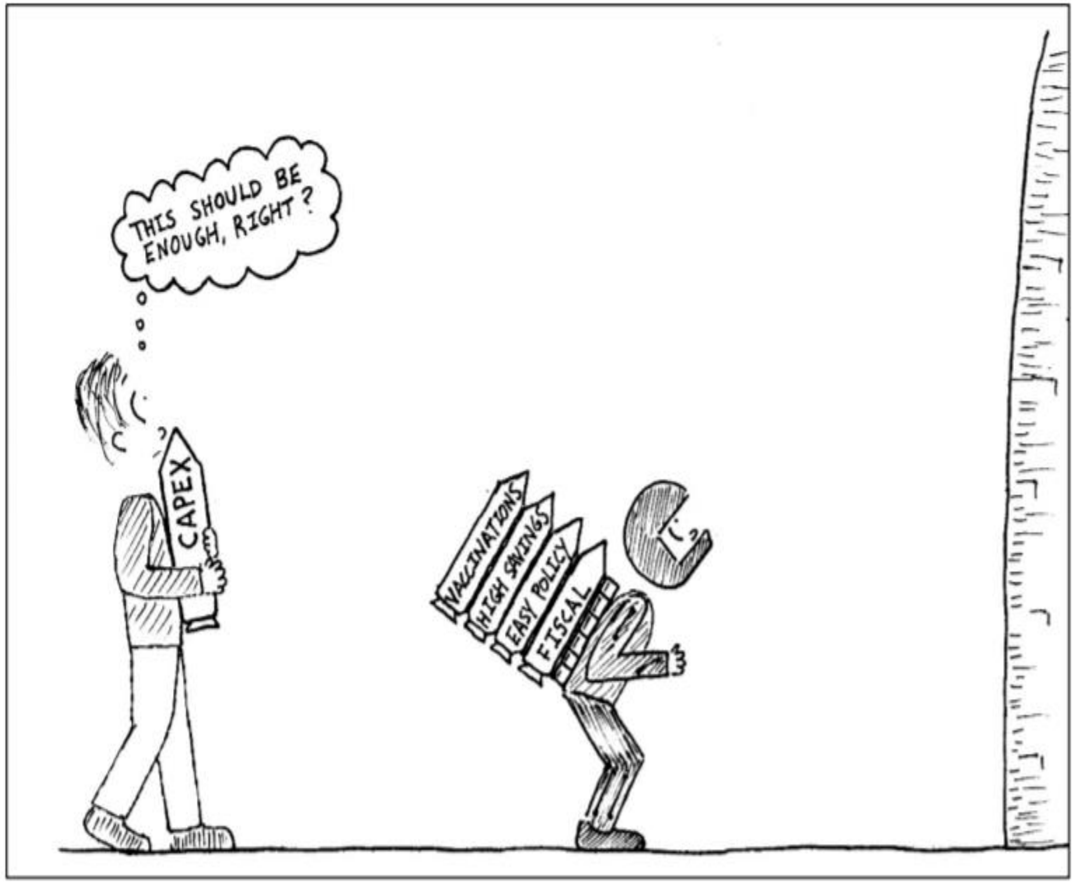
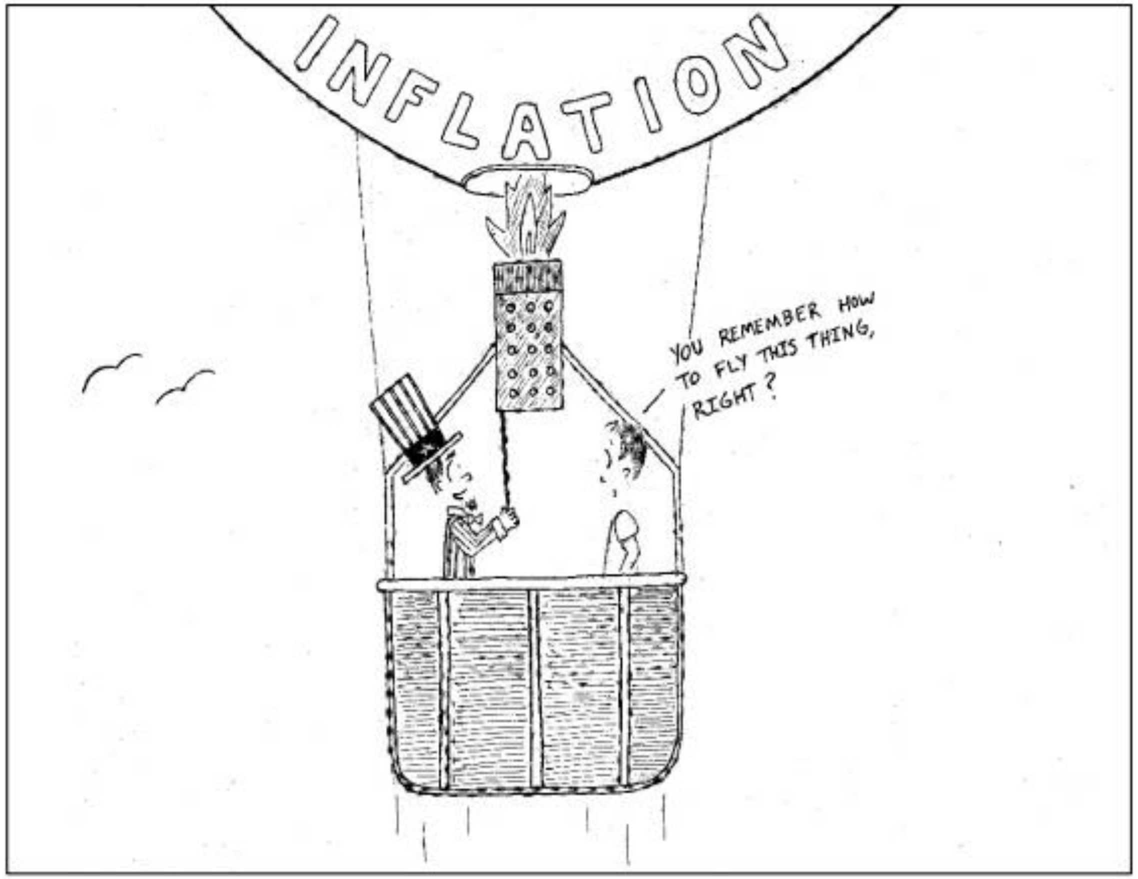
# FINANCIAL OUTLOOK 2022

# Outlook 2022

## ‘Slowflation’ episode but the recovery still has legs




Source: Morgan Stanley




Source: Morgan Stanley

# Today’s agenda

## Financial outlook 2022

# AG in a nutshell

1824 **197 years of expertise** 2021

**We insure**

- **1/3** complementary pensions
- **1/4** homes
- **1/7** cars
- **1/2** families

- Nearly 50% of all households in Belgium are AG customers
- Integrated distribution model covering bancinsurance, brokers and B2B
- Strong Solvency II margin
- Shareholders
  - 25% BNPP Fortis
  - 75% Ageas

## Key figures for 2020

| | |
|---|---|
| Total inflow | EUR **6.1** billion |
| Life | EUR 4 billion |
| Non-life | EUR 2,1 billion |
| Total investment portfolio | EUR **78,7** billion (09/2021) |
| Net profit | EUR 547 million |
| Solvency margin (31/12) | **195%** |
| Headcount | **4,360** employees |

## Market share


**#1**
**22.3%**
Total


**#2**
**16.3%**
Non-Life


**#1**
**29.2%**
Life

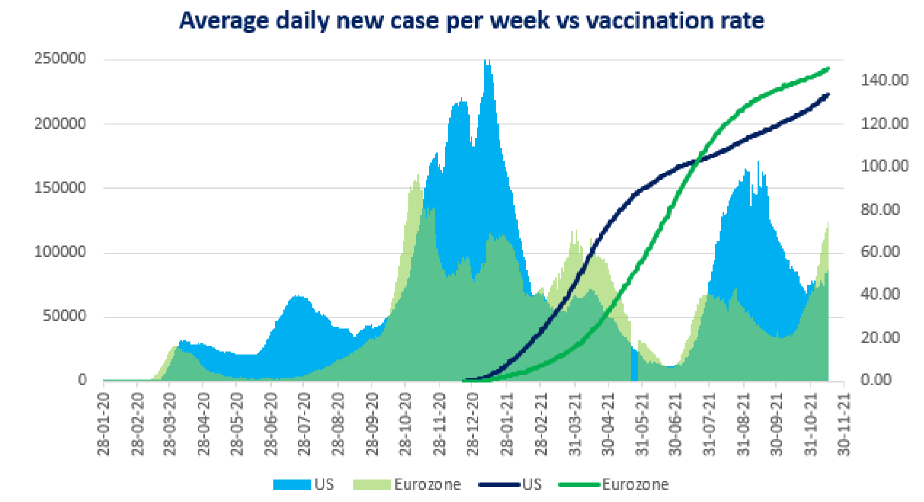
Source: Assuralia 2020

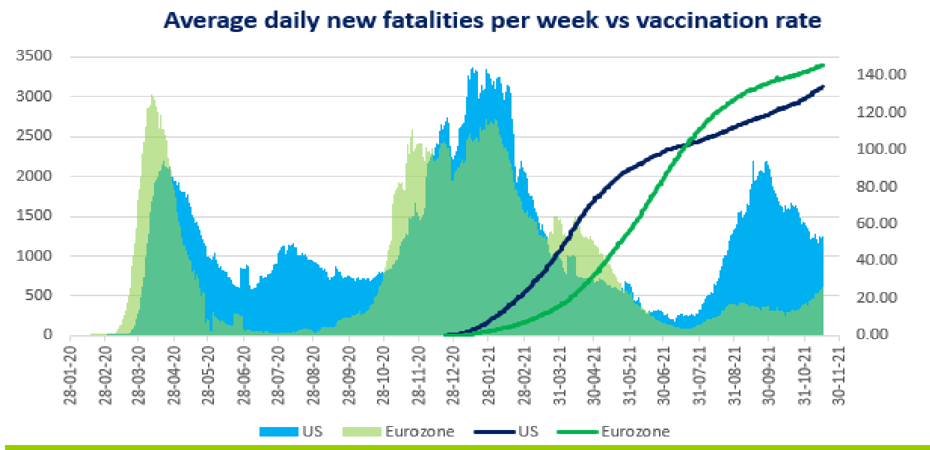
# Economic & market outlook

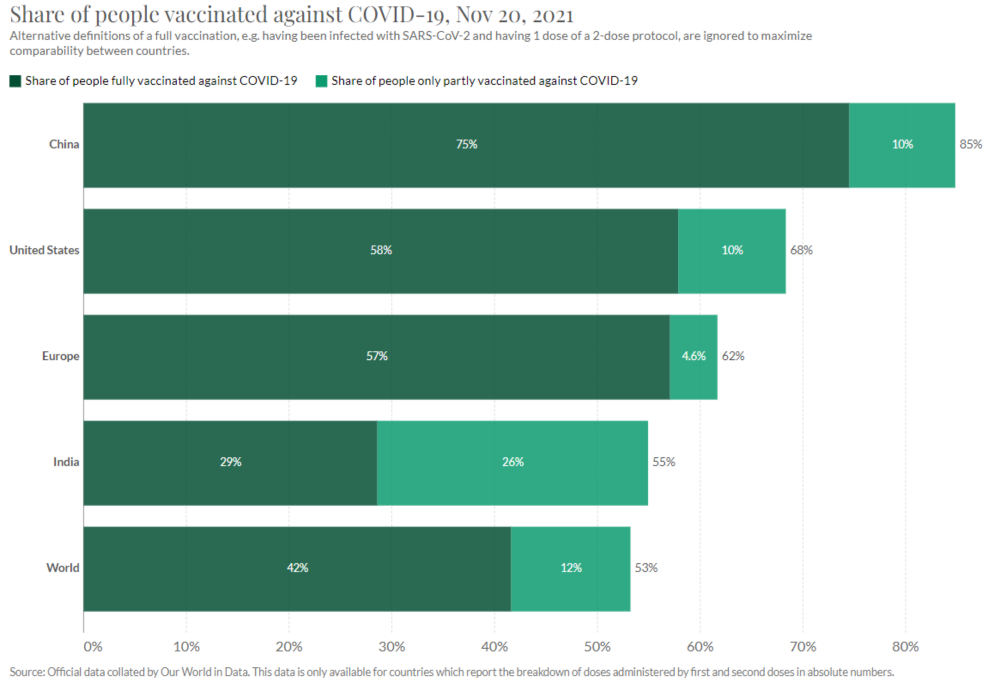
Olivier Colsoul
Senior Strategist

# Covid-19

## High vaccination is the way to manage this crisis



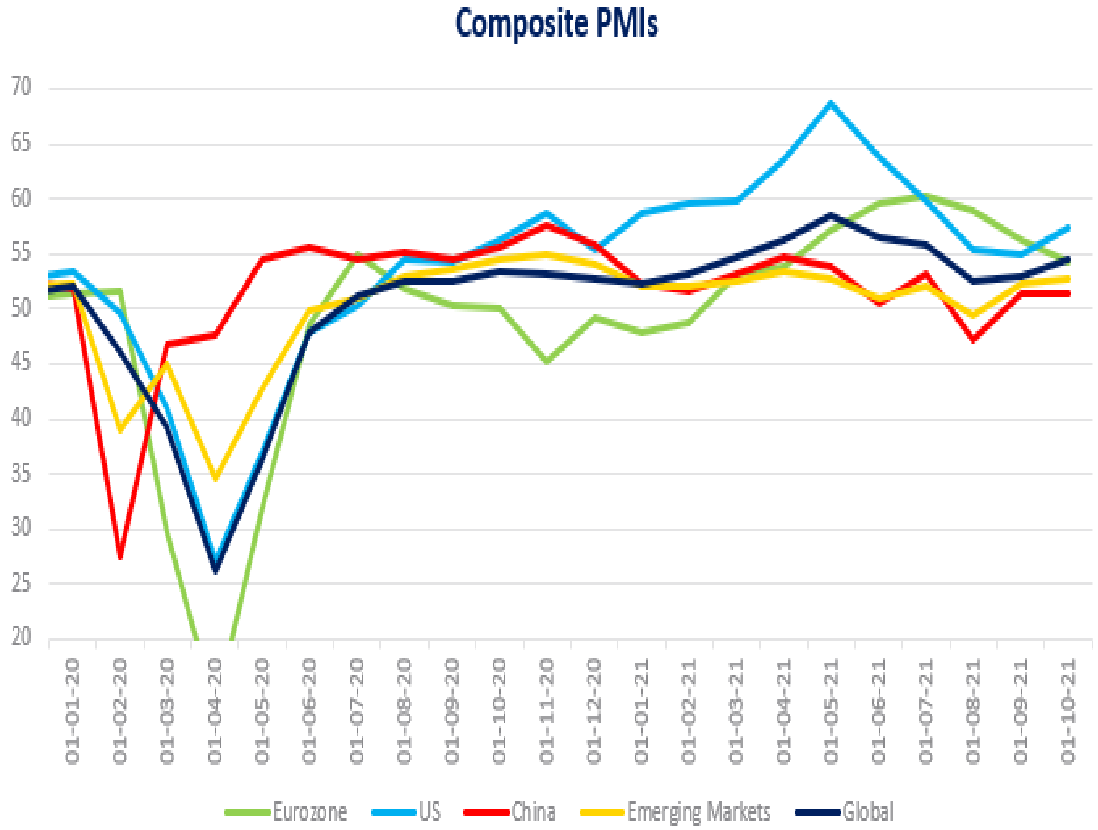





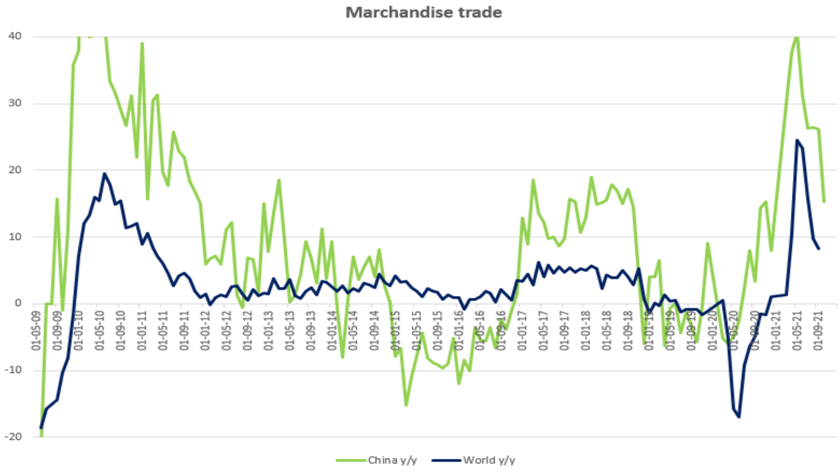
**New Covid wave less harmful for health system**
**Vaccination campaign in progress and Covid drug under development**

# Global

## Growth has reached its peak but remains strong



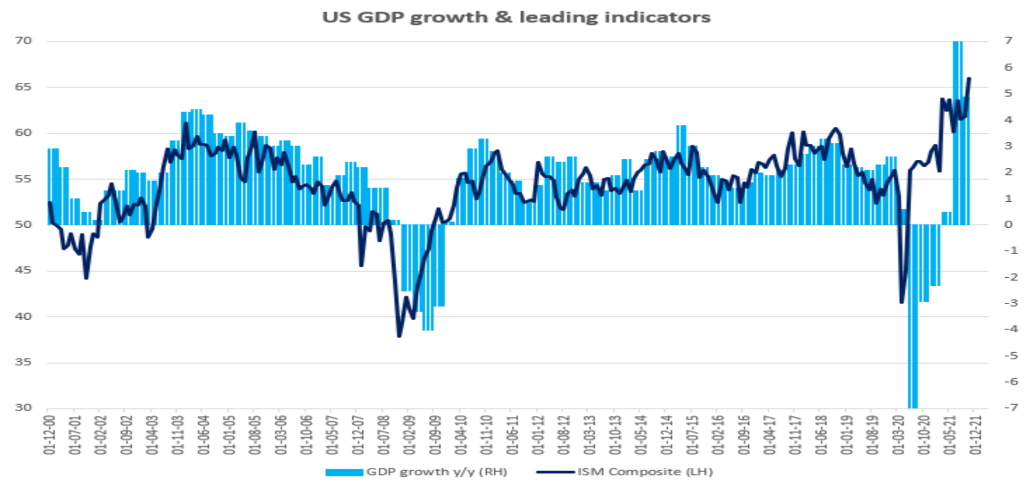


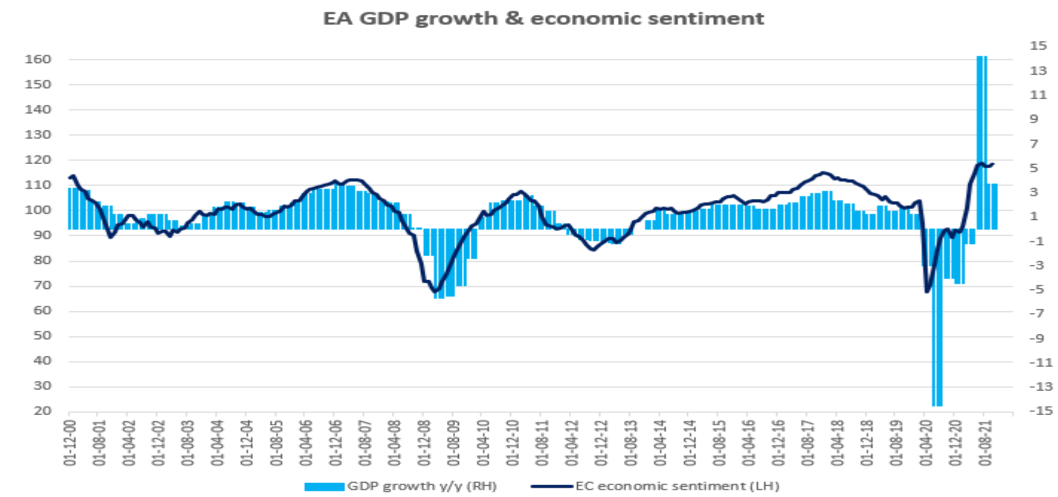


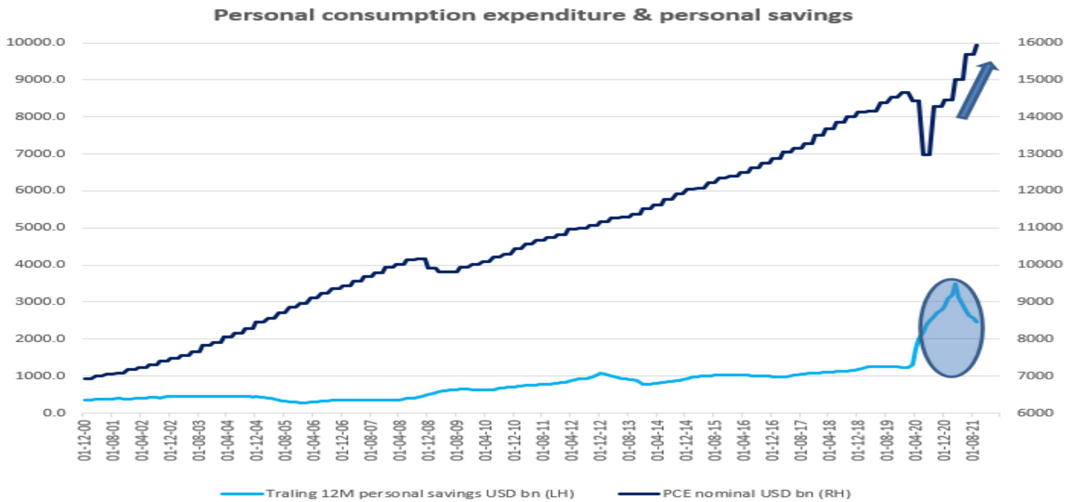

**Manufacturing hurt by bottlenecks but order books remain strong and world trade rebounds**

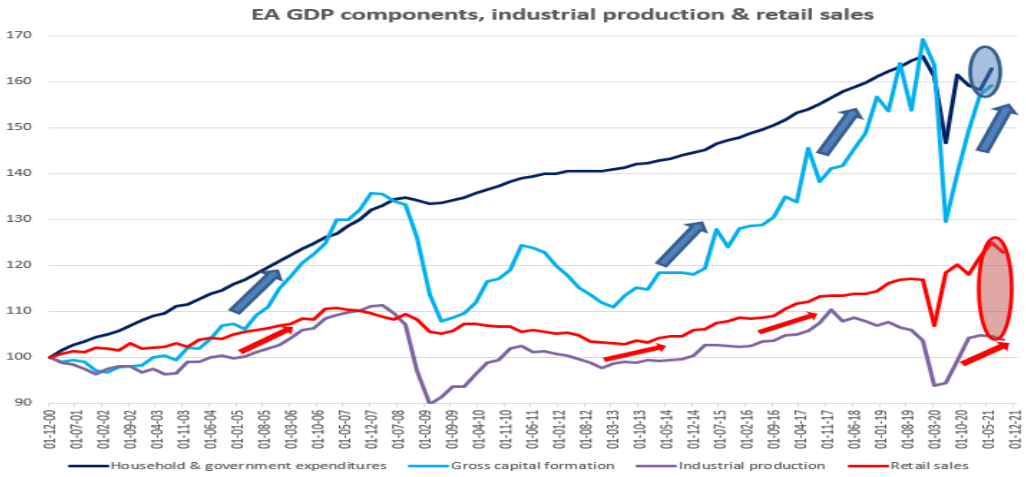
# Global

# Upbeat indicators in the US, strong in Europe



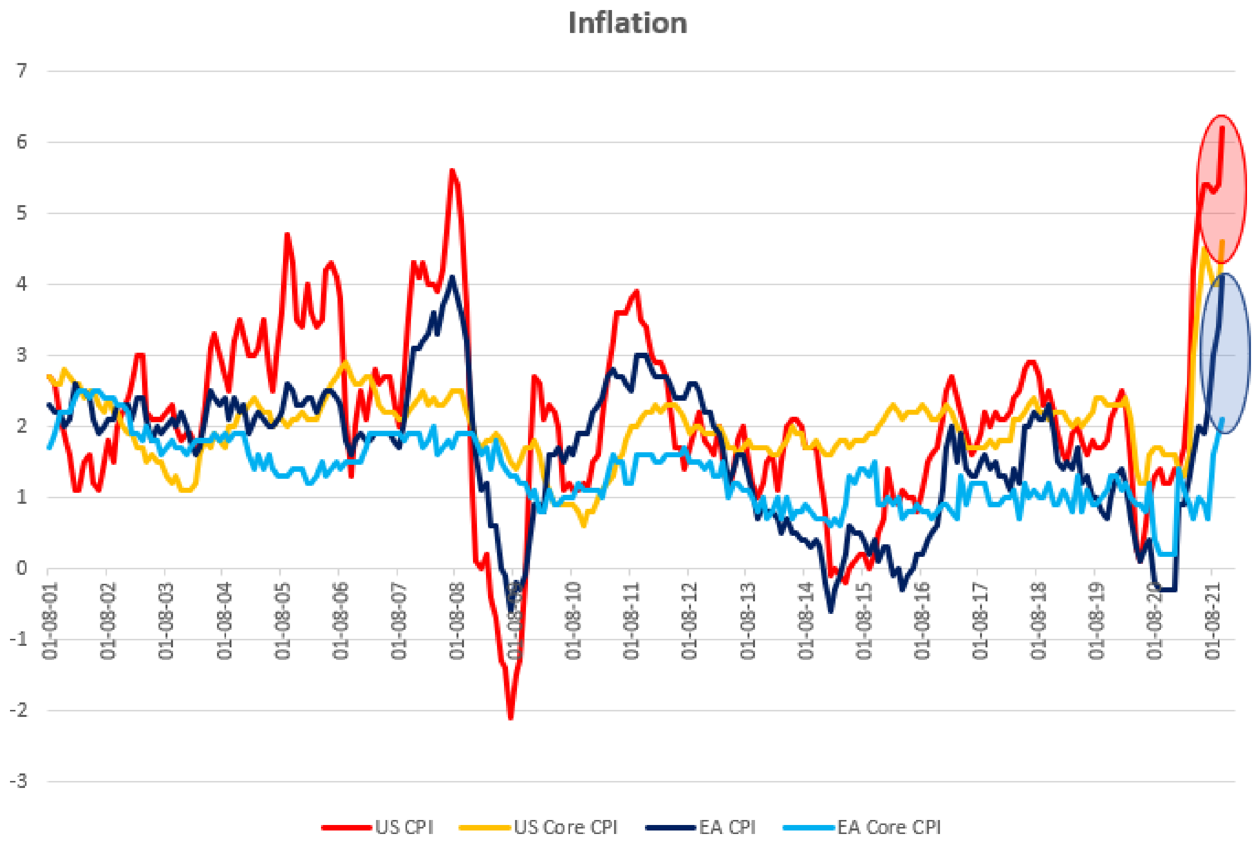



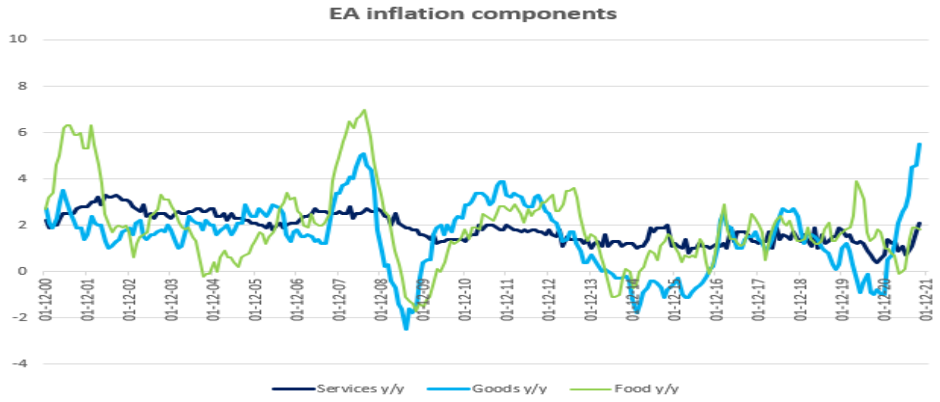



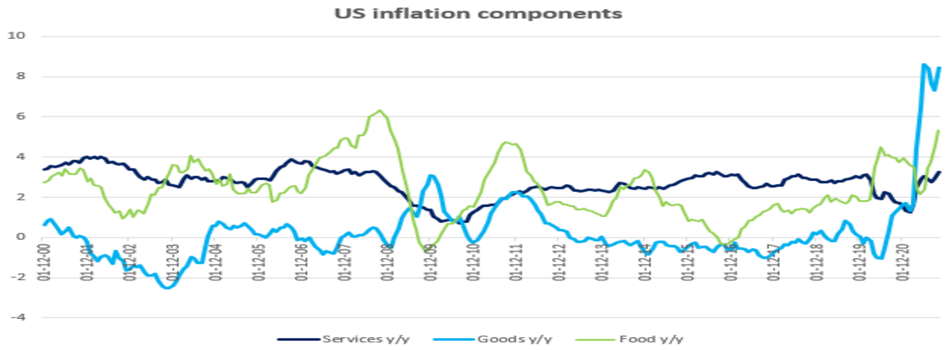

**Consumption of excess savings should support industrial production and capex**

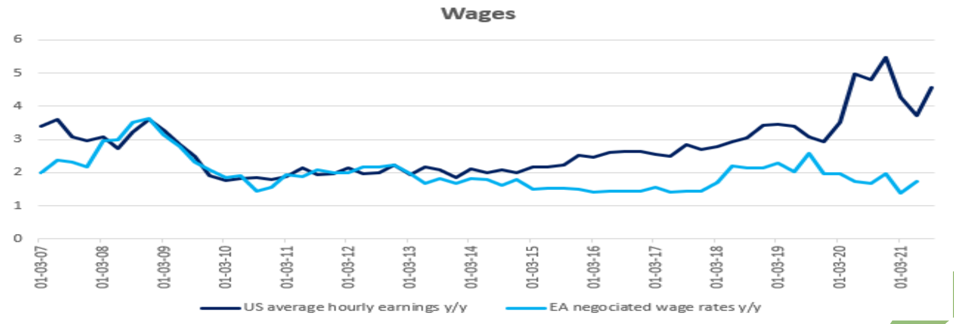
# Inflation

## Higher and partially more persistent



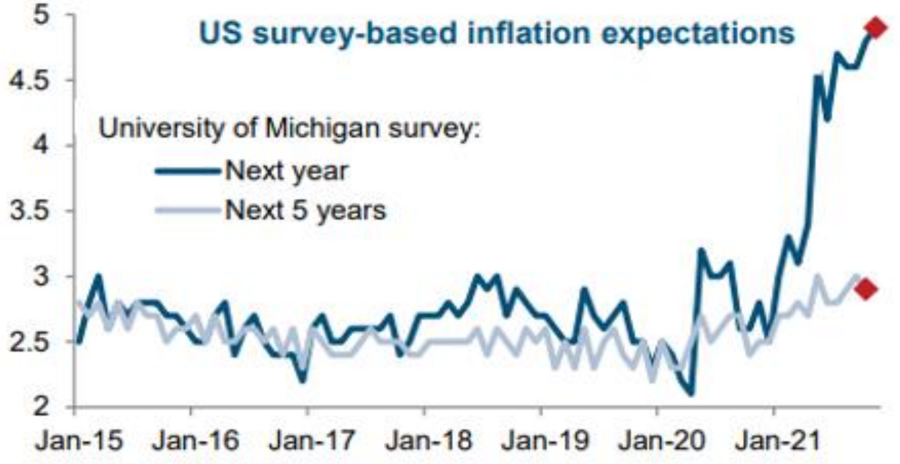



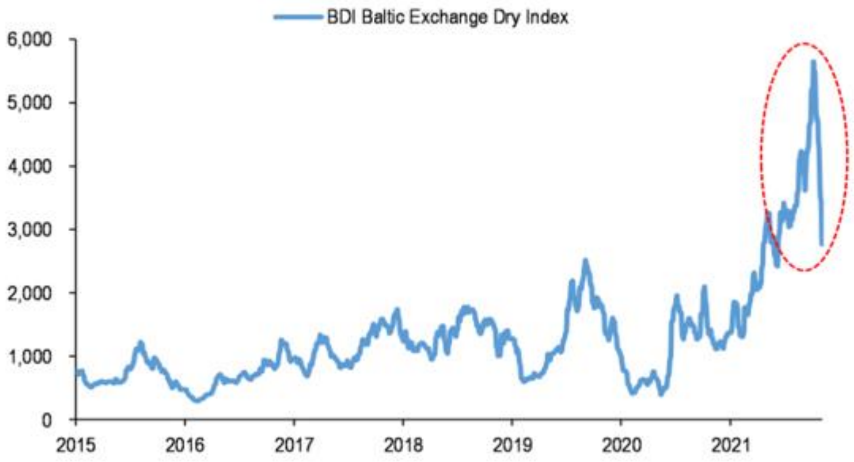

Core inflation more sticky in the US than in the EA

Strong goods demand, housing/rents and risk of wage-price spiral

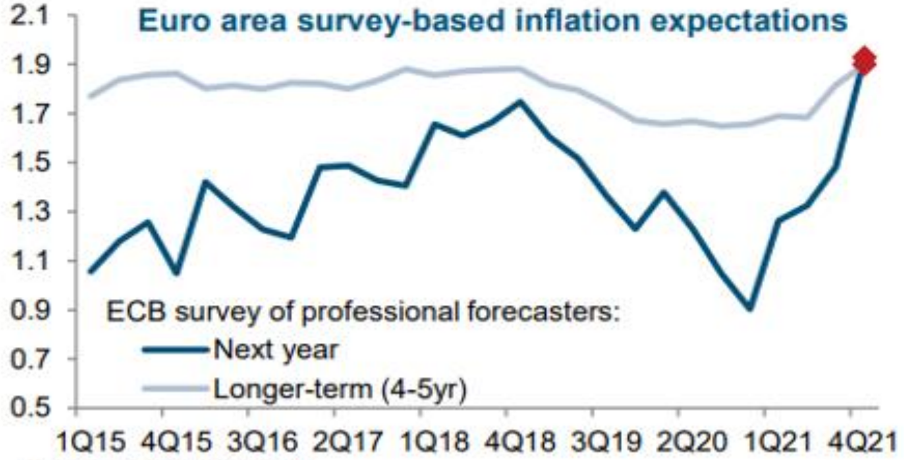
# Inflation High pressure to cool down but not quickly




Source: Goldman Sachs GIR

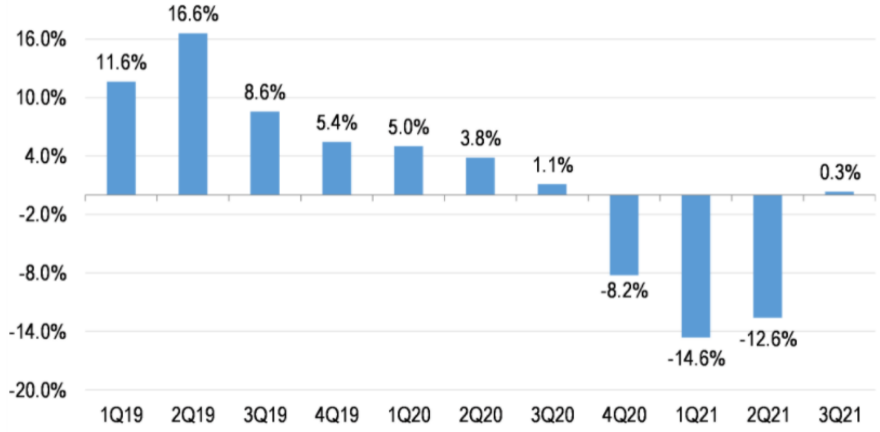



Source: JP Morgan




Source: Goldman Sachs GIR

European Semiconductor inventory position is improving

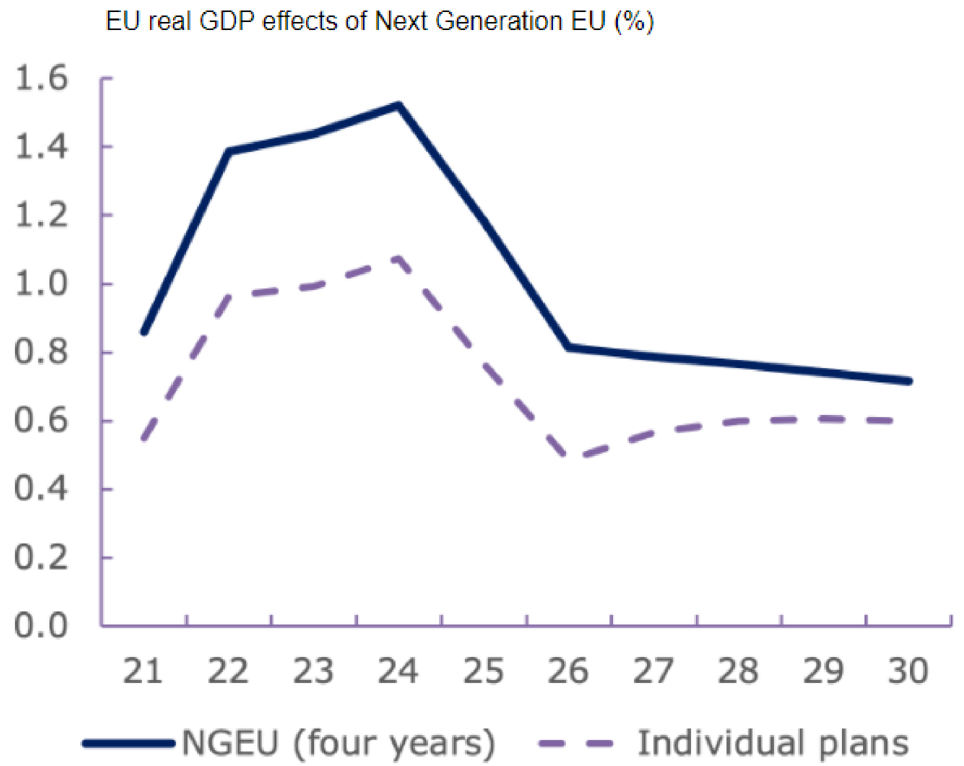



Source: Company data, JP Morgan compilation

**Inflation expected to normalize in the long run at a somewhat higher level**
**Early signs of logistic bottlenecks abating**

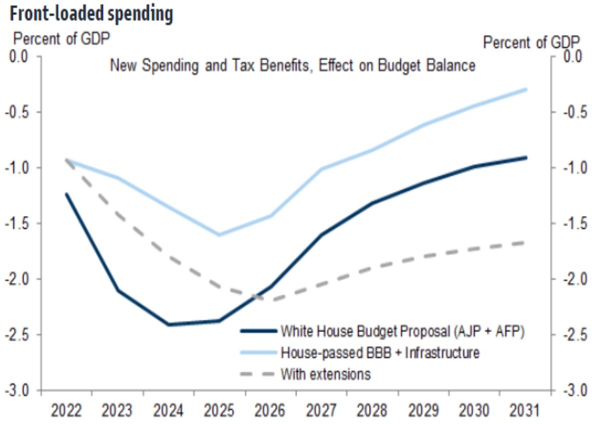
# Stimulus package

## Extend the cycle and enhance productivity

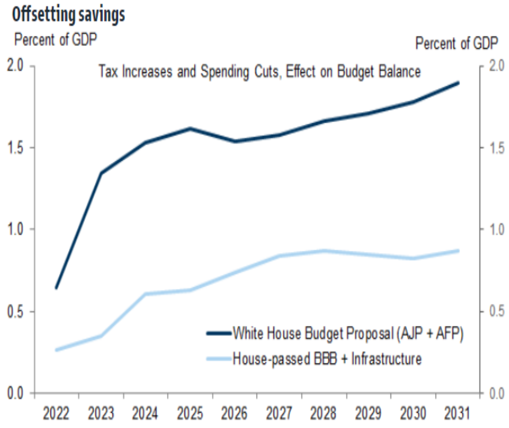



*Notes:* This graph reports the level of real GDP in percent deviation from a no-NGEU baseline assuming a high productivity of public investment and a fast NGEU spending profile spanning four years. The dark line shows simulation results for a simultaneous investment stimulus (NGEU). The dashed line displays a synthetic EU-wide GDP (weighted average) obtained by aggregating stand-alone 27 simulations with unilateral stimulus in each country.

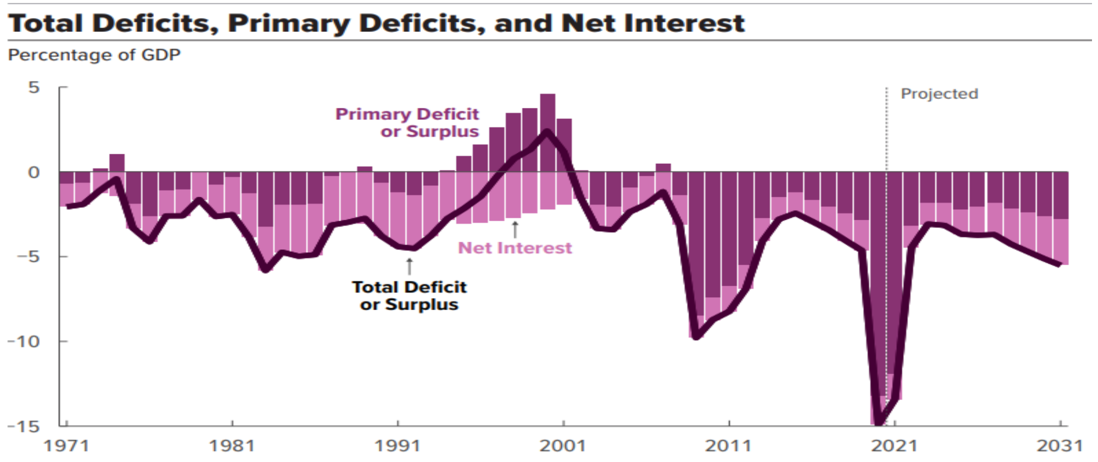
*Source:* Pfeiffer et al. (2021) Economist, European Commission




Source: White House, Congressional Budget Office, Goldman Sachs Global Investment Research




Source: White House, Congressional Budget Office, Goldman Sachs Global Investment Research




Data source: Congressional Budget Office.

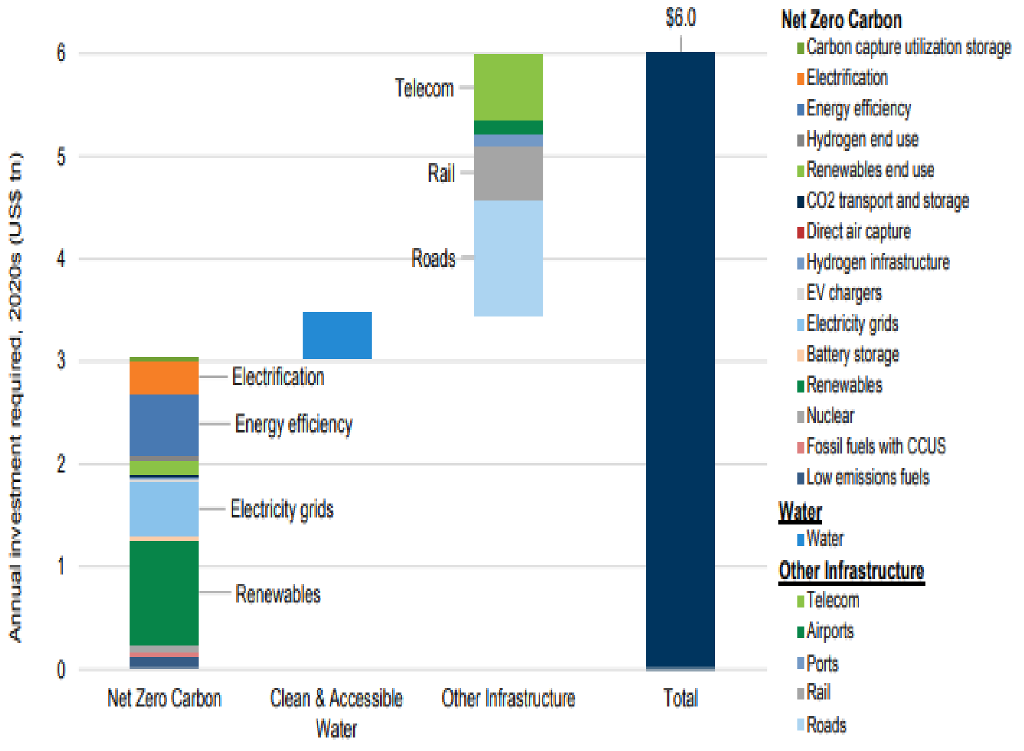
**Recovery and resilience plan is EU's largest stimulus package ever**
**US fiscal leeway is now more constrained**

# Climate change

## Transition to a low carbon world

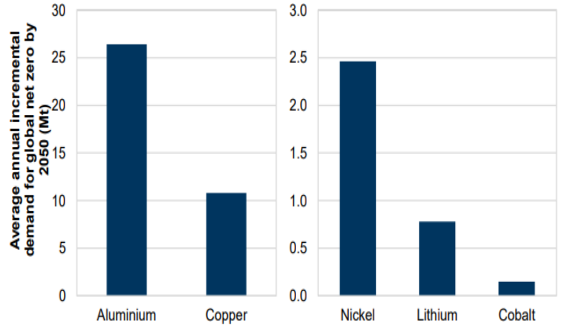
**Around $6 trillion of Green Capex annually is needed globally to meet Net Zero, Infrastructure and Clean Water goals**

Annual investment required, 2020-2030



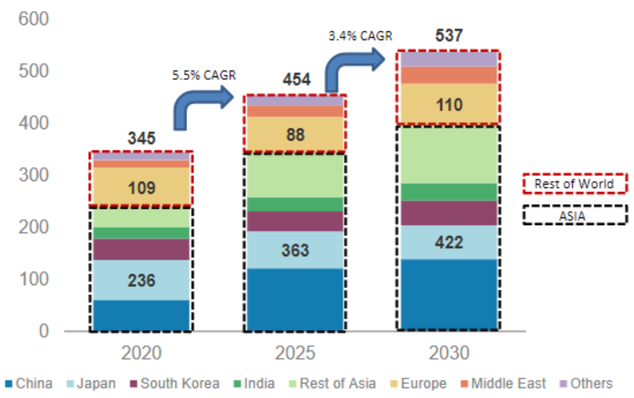

Source: IEA, OECD, McKinsey & Company, Goldman Sachs Global Investment Research

Average annual incremenal demand for global net zero by 2050 (Mt)



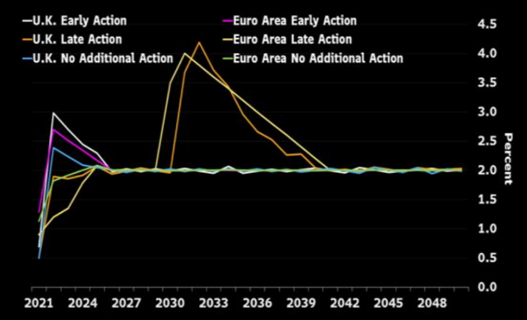

Source: Company data, Goldman Sachs Global Investment Research

LNG is a key Energy Transition fuel



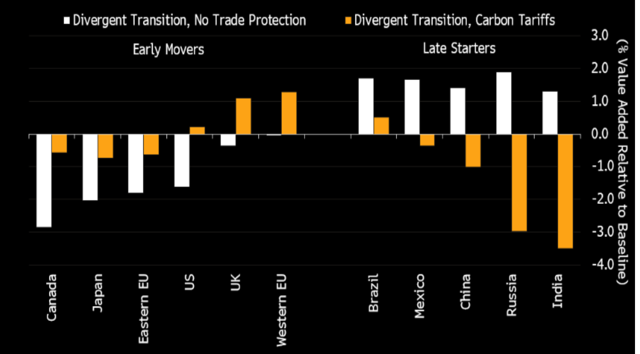

Source: Morgan Stanley Research estimates

**Delayed Action on Carbon Prices Would Mean Higher Inflation**




Source: Bank of England, Bloomberg Economics

**The Cost of Carbon Competition**

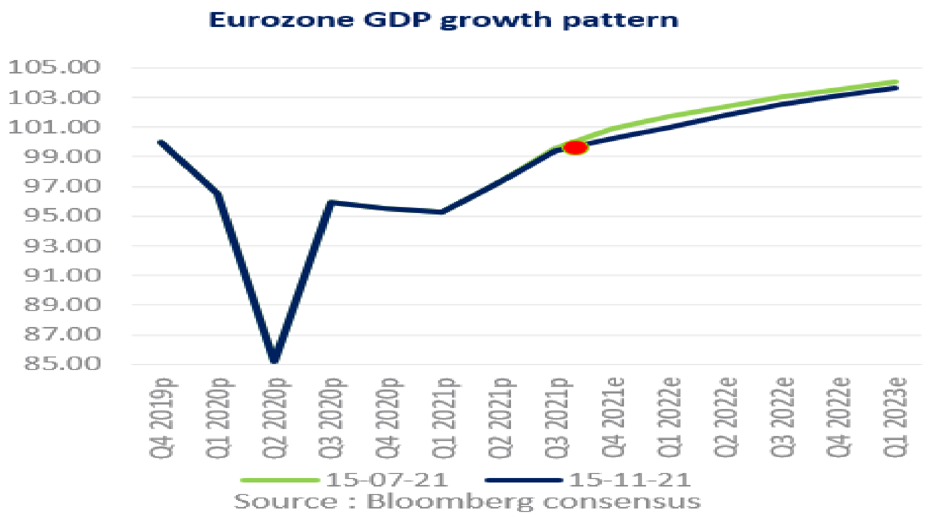


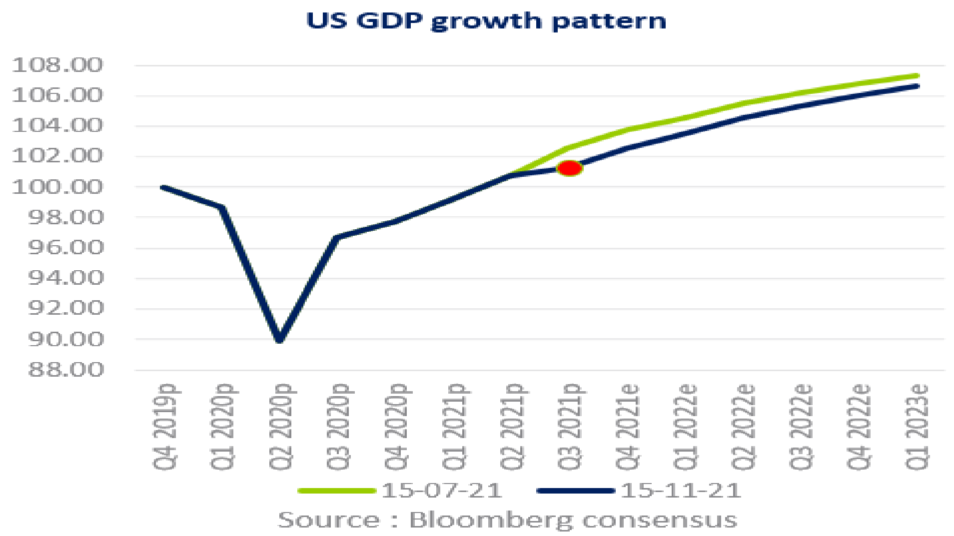

Source: Bloomberg Economics

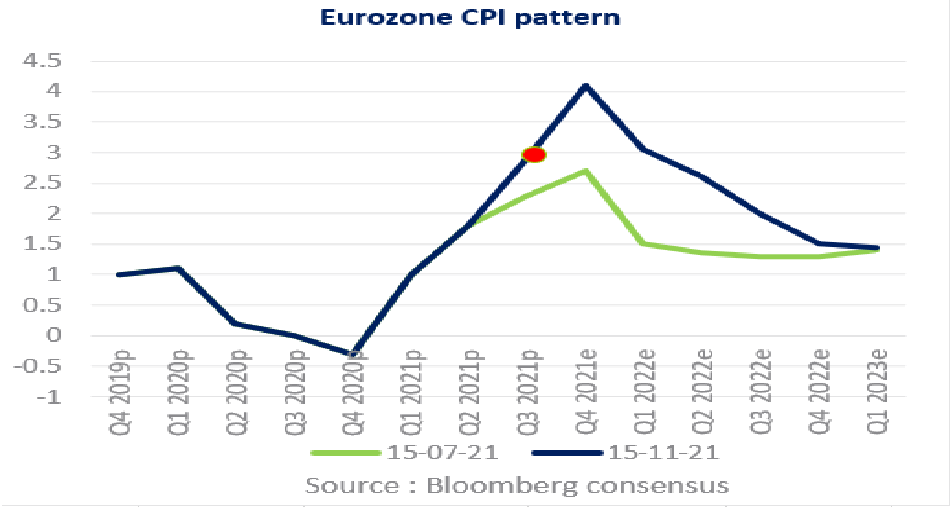
**Huge capex needed creating inflationary pressure**
**Transition potentially positive for DM/EU**

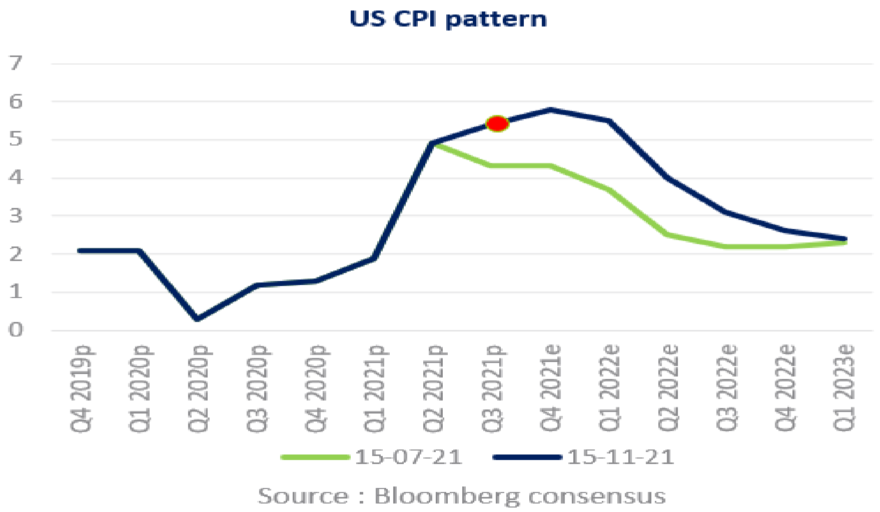
# Recovery

## No stagflation but 'slowflation' for a while




**Expansion slightly delayed but not derailed and combined with somewhat higher inflation for longer**

# Main macro scenarios

## Base case : normalization of the economy

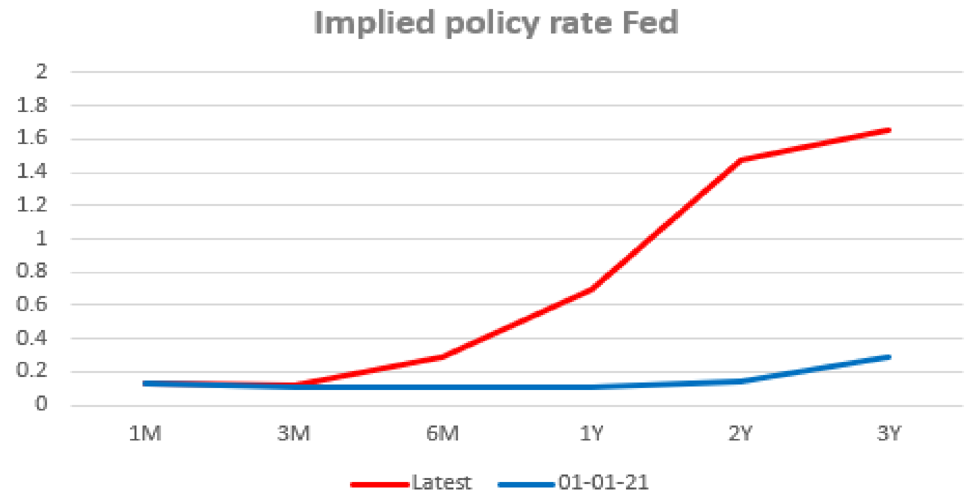
| SCENARIO PROBABILITY OF OCCURENCE | CONVERGENCE TOWARDS LONG TERM TREND | SOFT STAGFLATION | SECULAR STAGNATION |
|---|---|---|---|
| Description | Transition from strong recovery to sound expansion. Inflation softens but settles higher to pre-Covid levels. **NORMALIZATION** | Reopening peters out, bottlenecks remain, high raw materials, food & energy prices, environmental issues. **STICKY INFLATION** | Lasting economic effects from the pandemic, disappointing recovery plans, geopolitical and free trade issues. **RETURN TO THE MID 2010s** |
| Economic impact | GDP expansion, increasing purchasing power and higher investments, stable deficits and debt levels. | GDP stagnation, fading purchasing power and capex as a result of price increases, strong deficits and higher debt levels. | Sluggish GDP growth, purchasing power stagnation, loss of confidence, moderate deficits but high debt levels |
| Central banks | Removing gradually liquidity support and raising gently interest rates as inflation remains contained. | Behind the curve with a big dilemma : let it loose or combat inflation ? Perhaps first before second. | Renewed action at a higher speed but becoming less and less effective over time to achieve goals. |
| Equities | Constructive environment, steady earnings growth, slightly lower-to-stable valuation multiples (P/E). | Challenging environment, disappointing earnings growth (margin squeeze) and lower valuation multiples (P/E compression). | Supportive monetary policy, poor earnings growth (lack of sales growth), higher risk premium likely (P/E compression). |
| Interest rates/ Corporate spreads | Short-term and long-term yields moderately up over time. Corporate/peripheral spreads remain subdued. | Short-term rates significantly up driving also long term yields up. Corporate/peripheral spreads widening. | Strong downward pressure on safe haven yields. Corporate/ peripheral spreads volatility buffered by central bank action. |
| Government spending | Some budgetary leeway. | Big government in action. | Big dilemma : austerity or big government ? Perhaps both. |

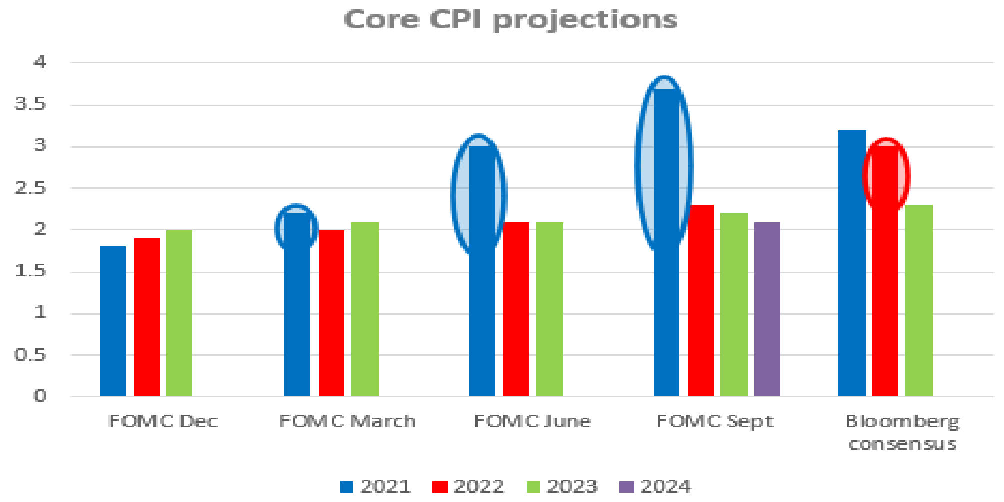
**Good vaccine immunity, virus shifting from pandemic to endemic / Waning vaccine immunity, multiple future resurgence of the virus**

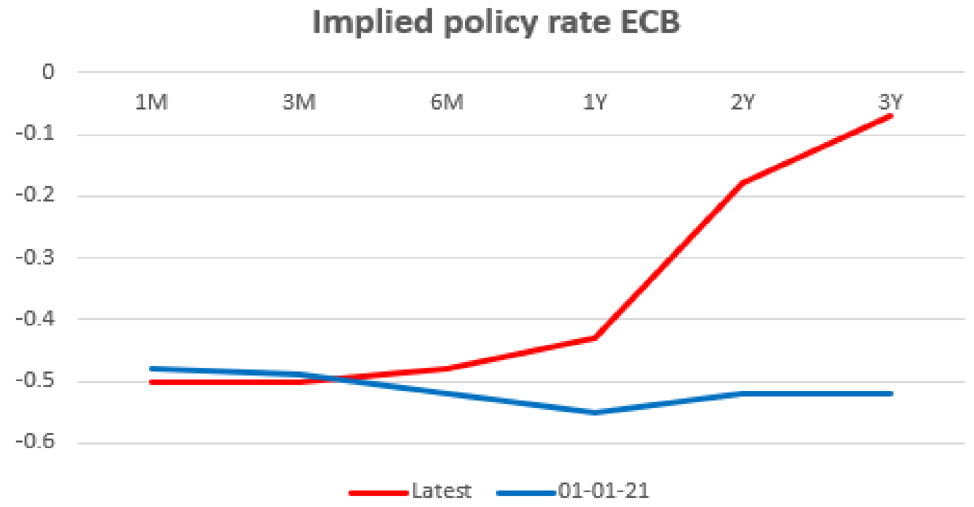
Covid manageable ⟷ Covid problematic

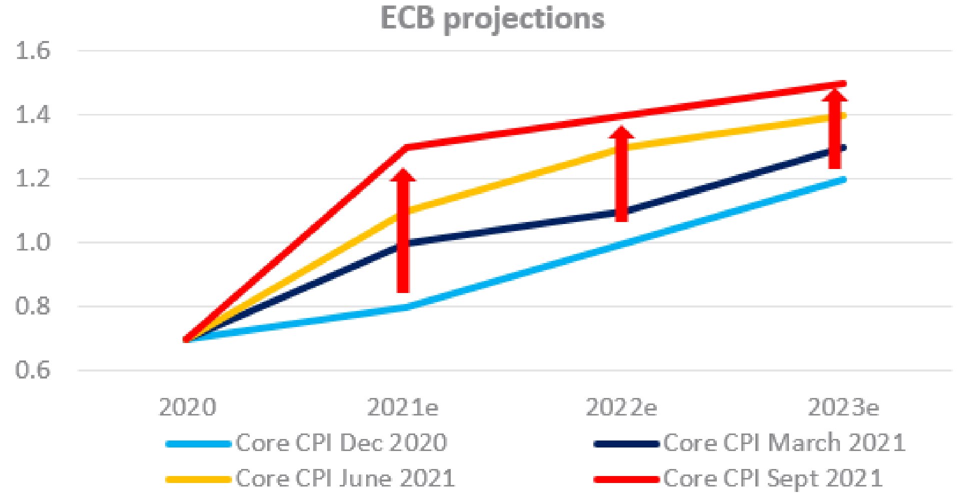
# Central banks

## Path towards gradual normalization



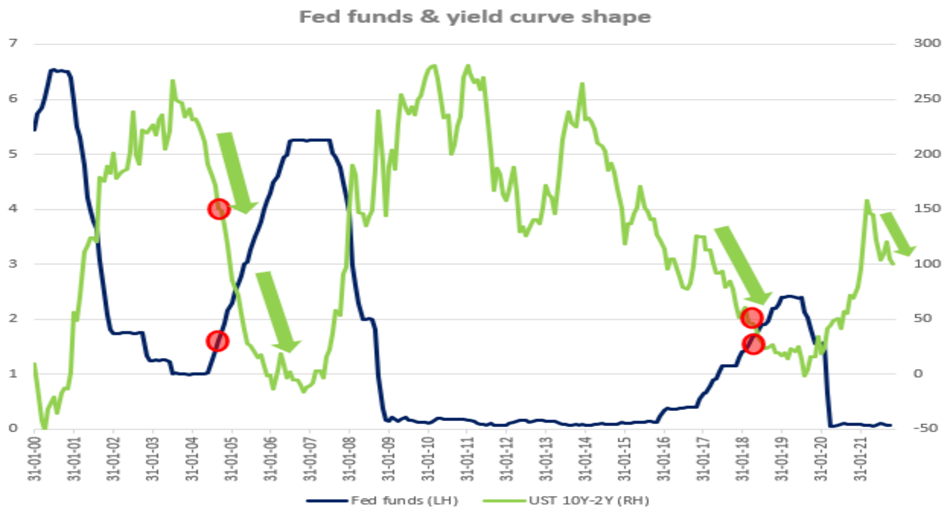



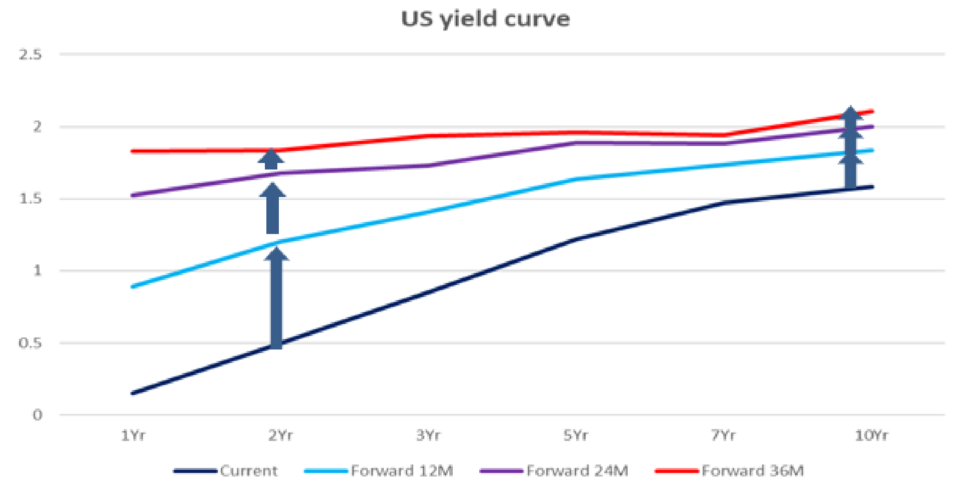



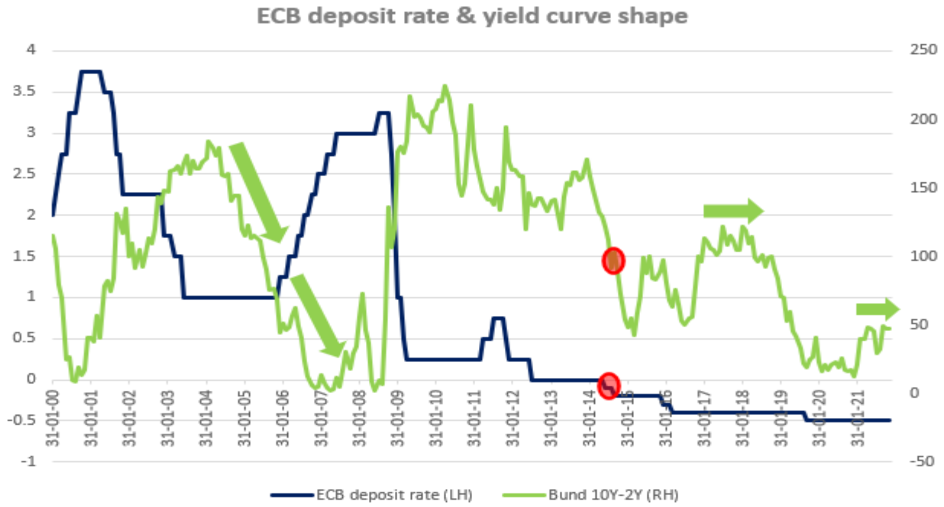

Market expectations are perhaps too hawkish but repricing of inflation risk is likely again

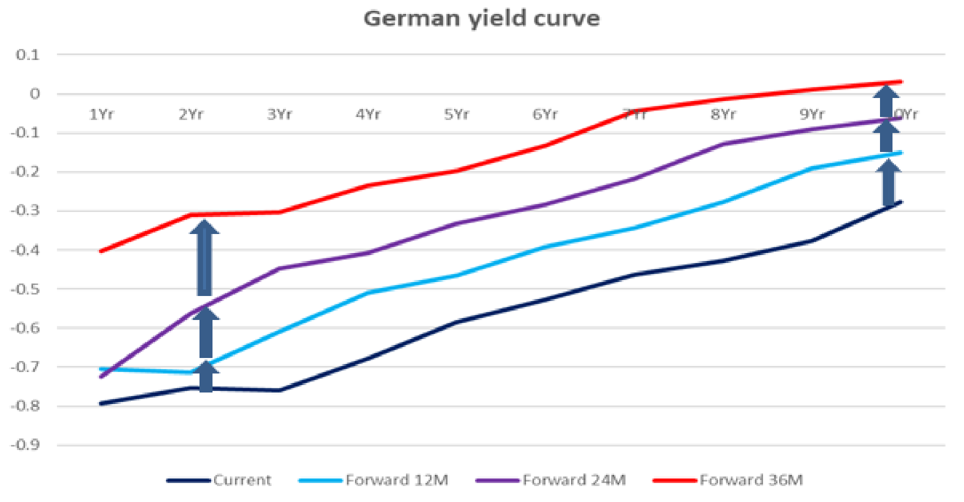
# Bond yields

## Higher yields expected, especially in the US



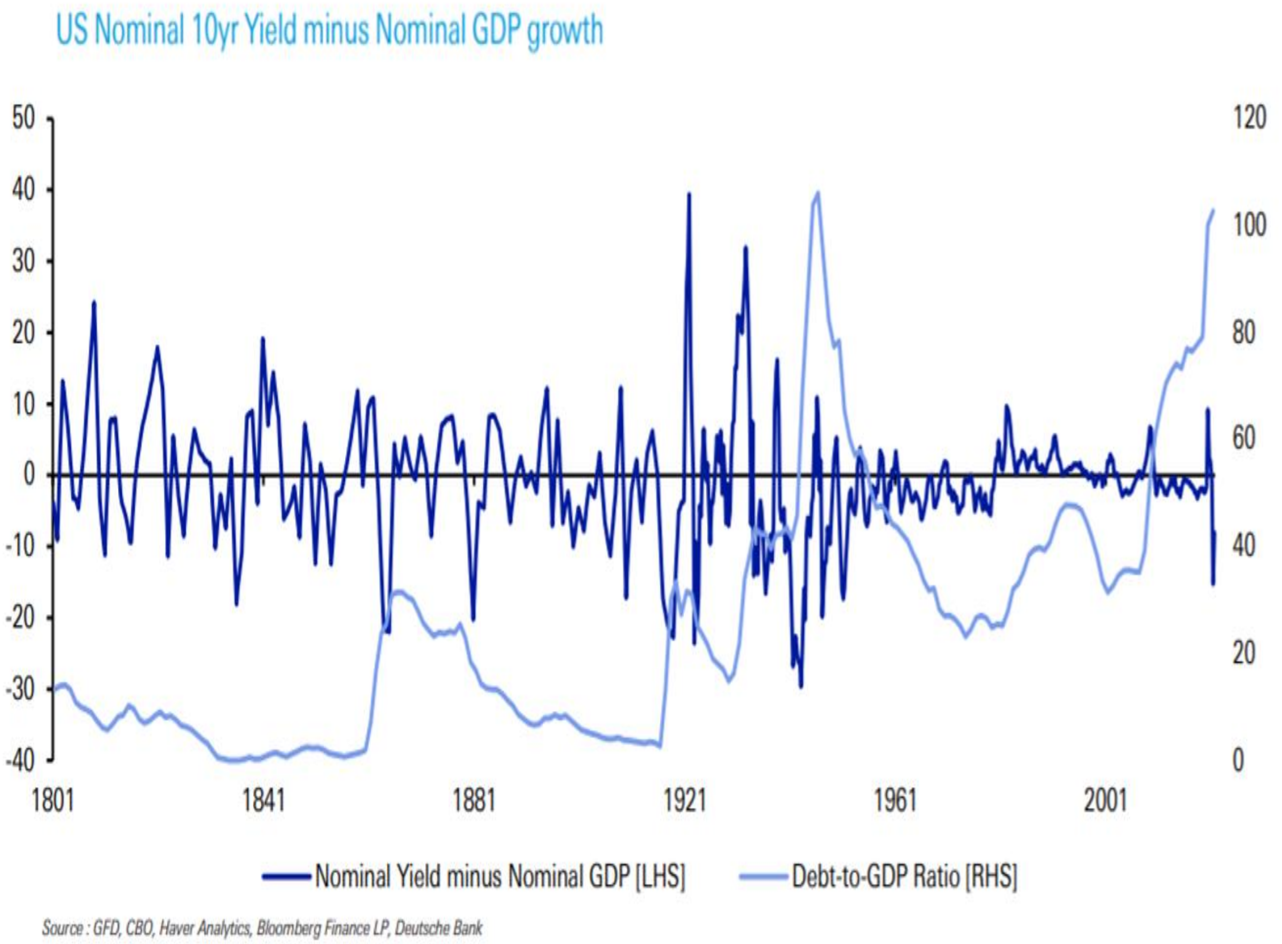



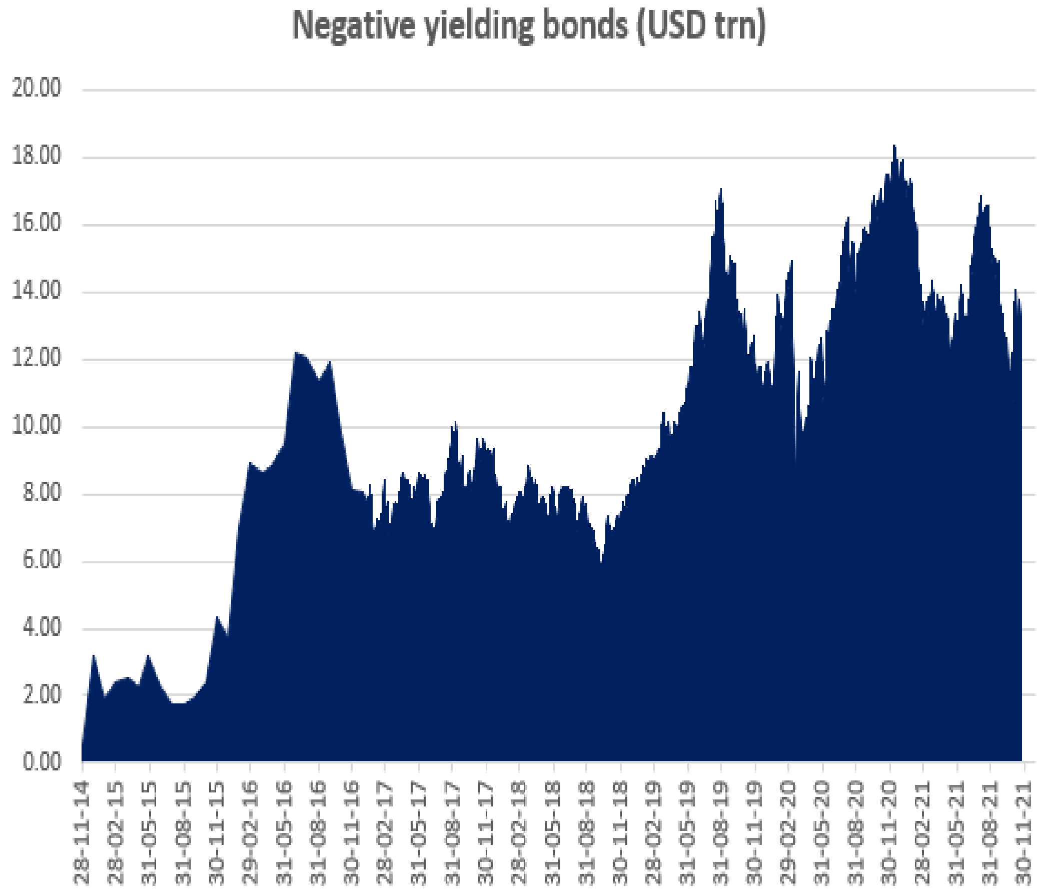




**US tightening cycle means higher but flatter yield curve, EA movements more muted**

# Bond yields

## Financial repression is here to stay

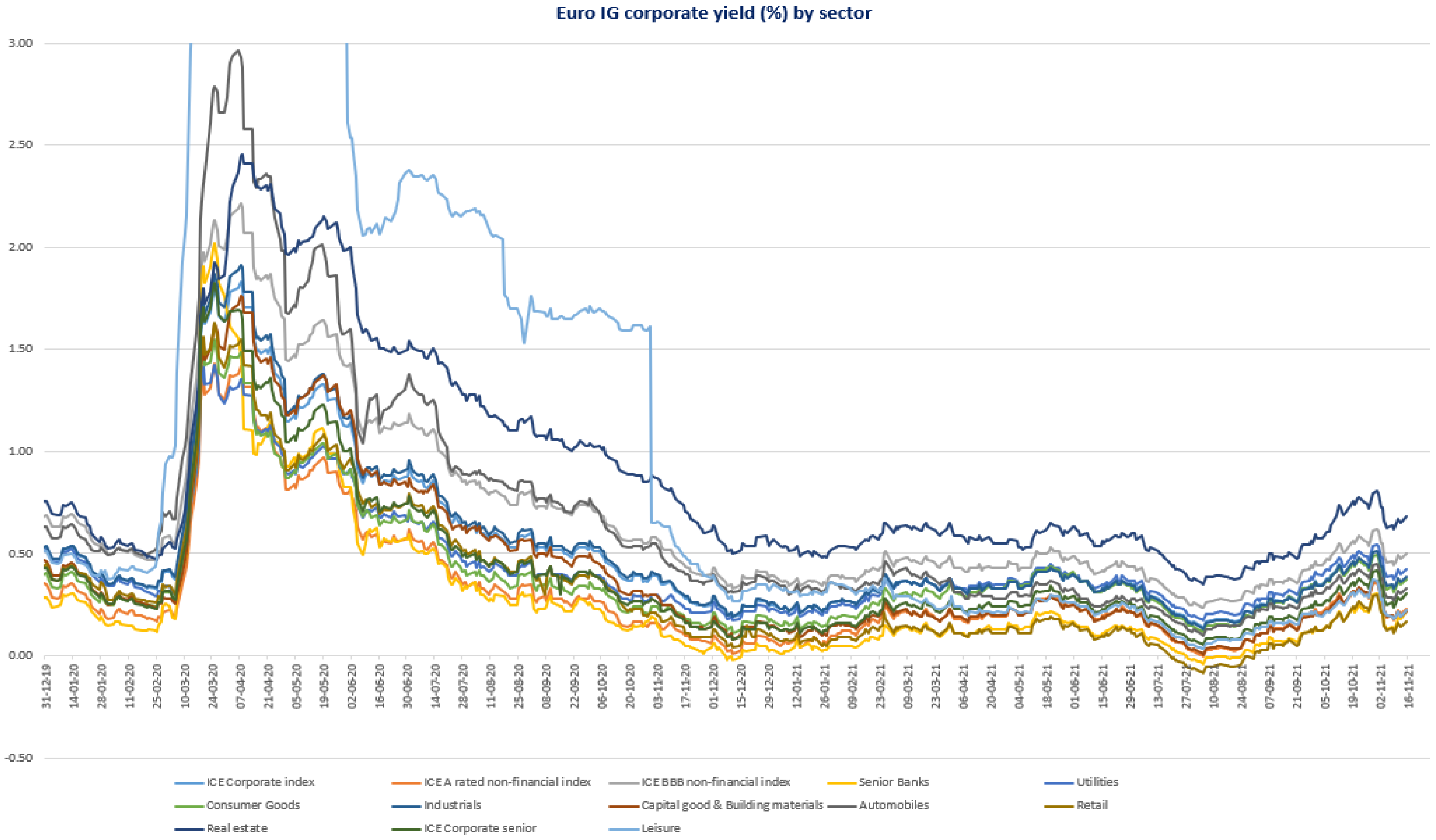



**Historically, deleveraging has always been helped by yields being below nominal GDP growth**

# Corporate bonds

## Some limited relative value left



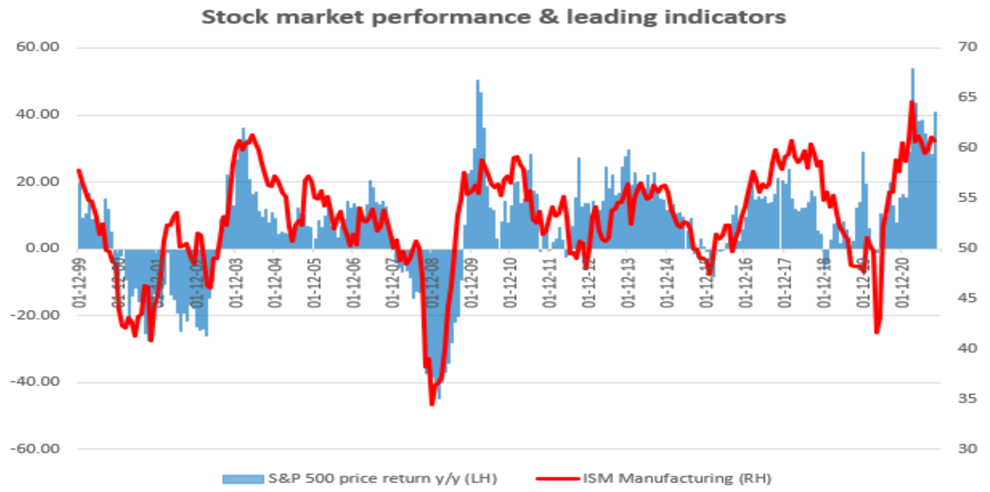


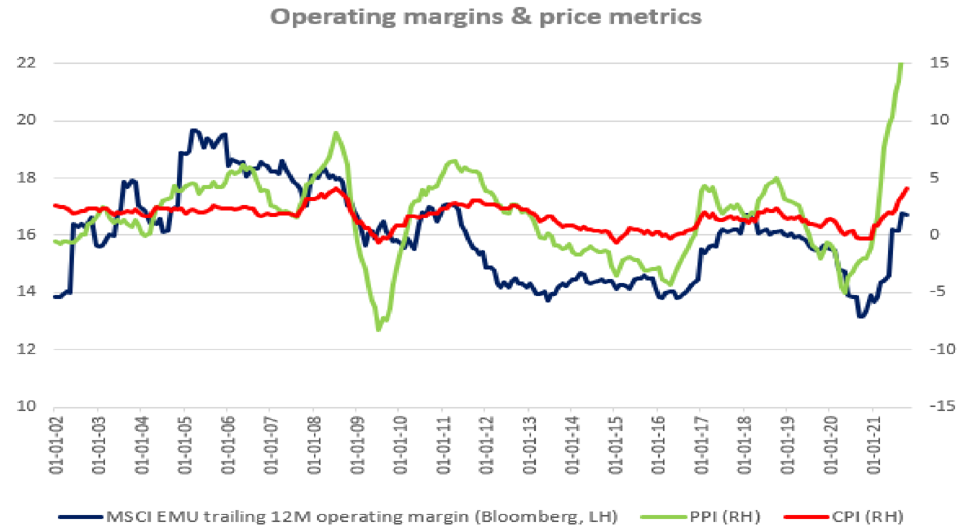


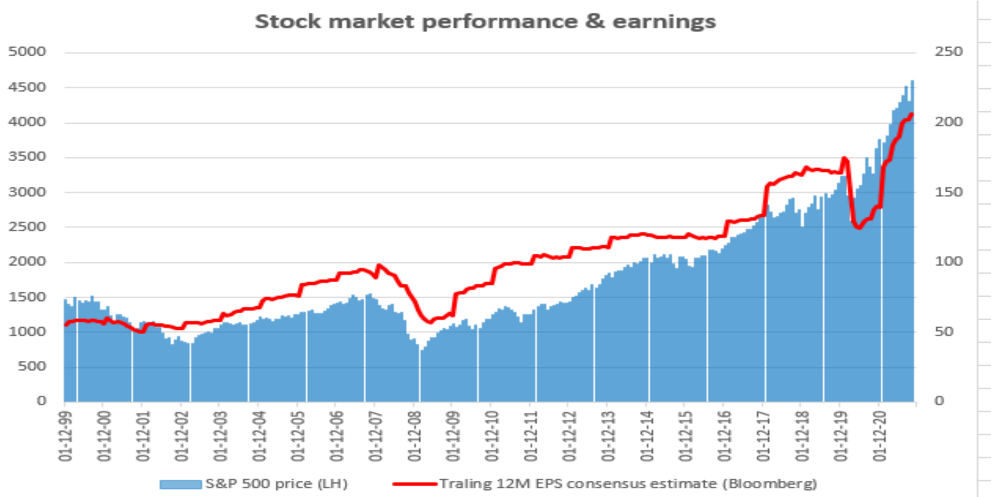

**Spreads back to pre-crisis level and expected to remain around this level**

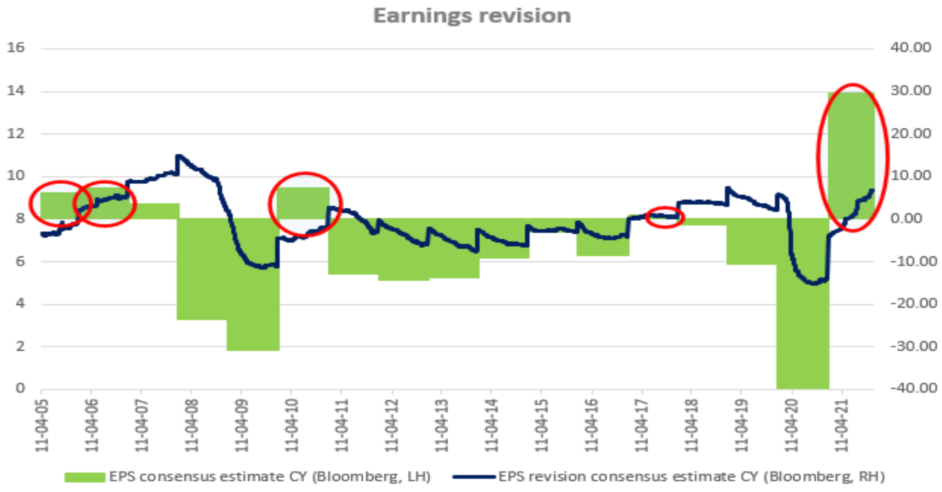
# Equities

## Business cycle still positive



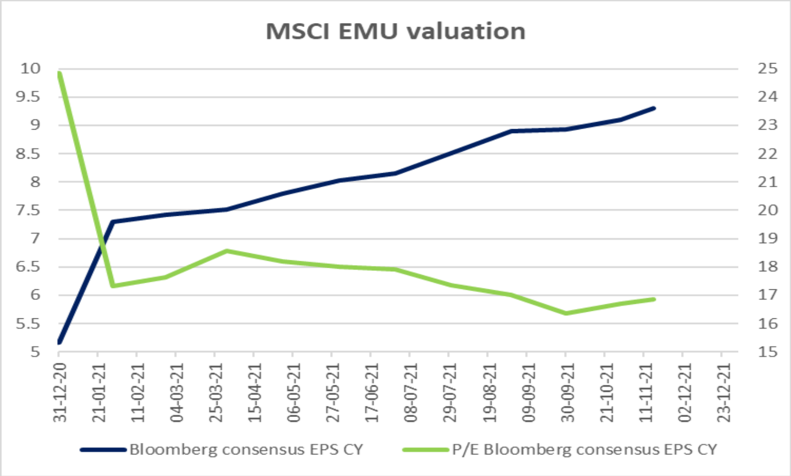



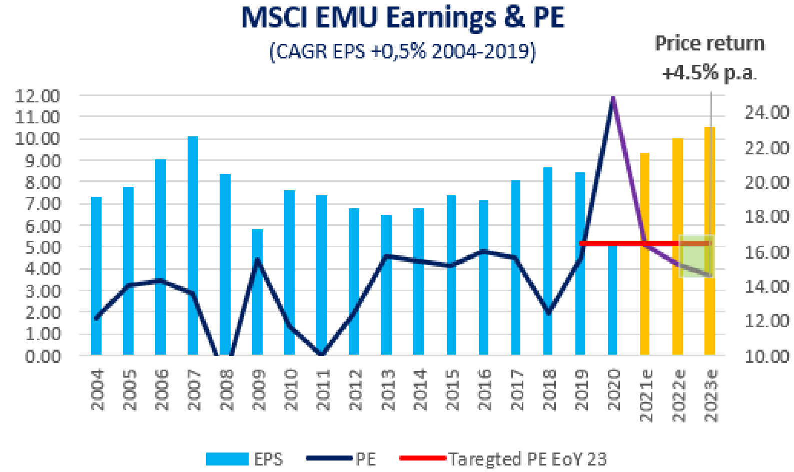



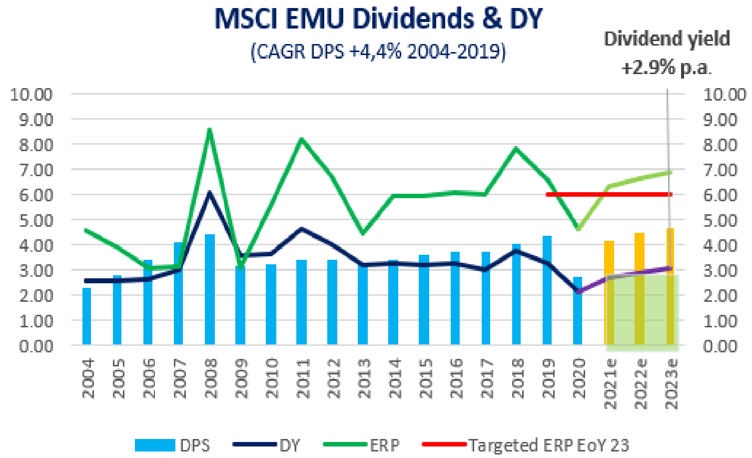

**Scope for upward EPS revision not exhausted thanks to strong demand & pricing power**

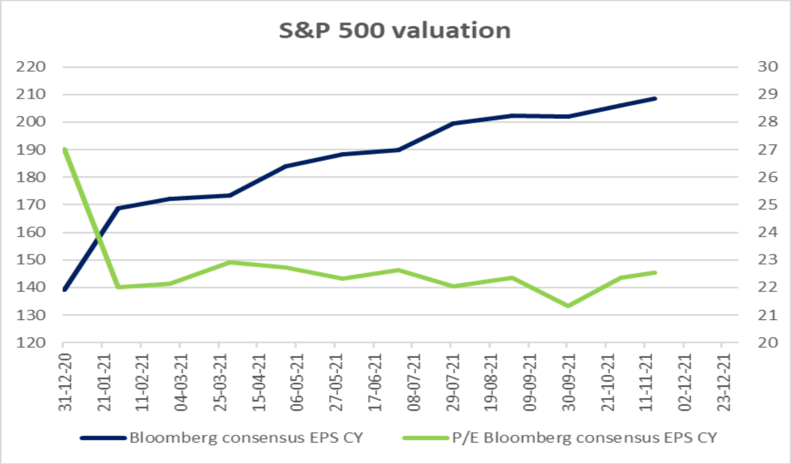
# Equities

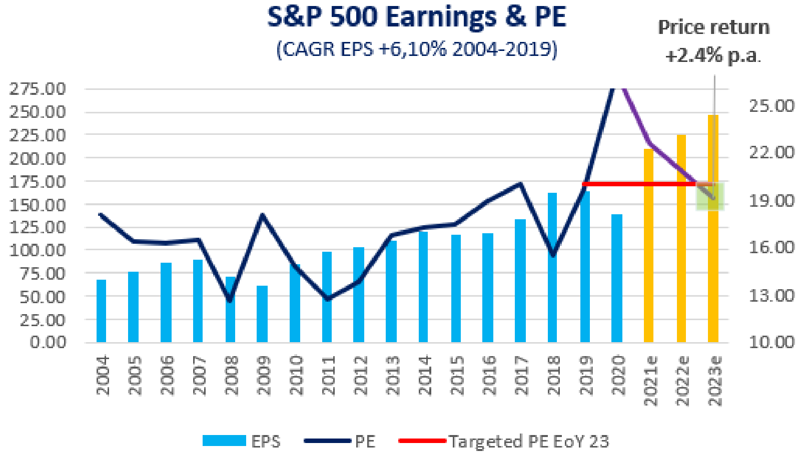
## Constructive over the medium term

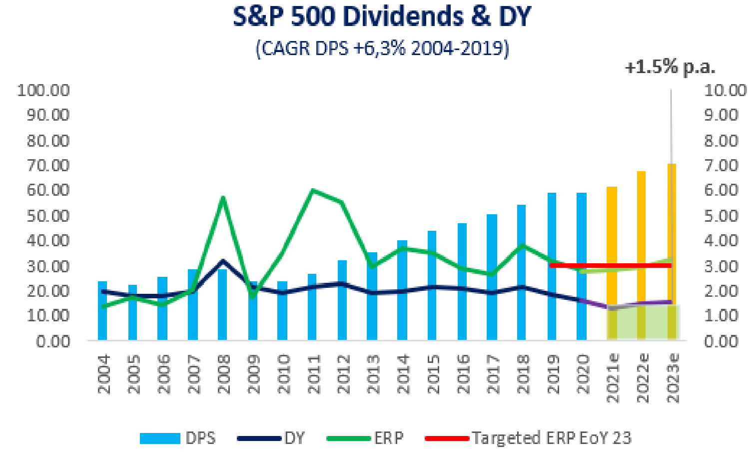


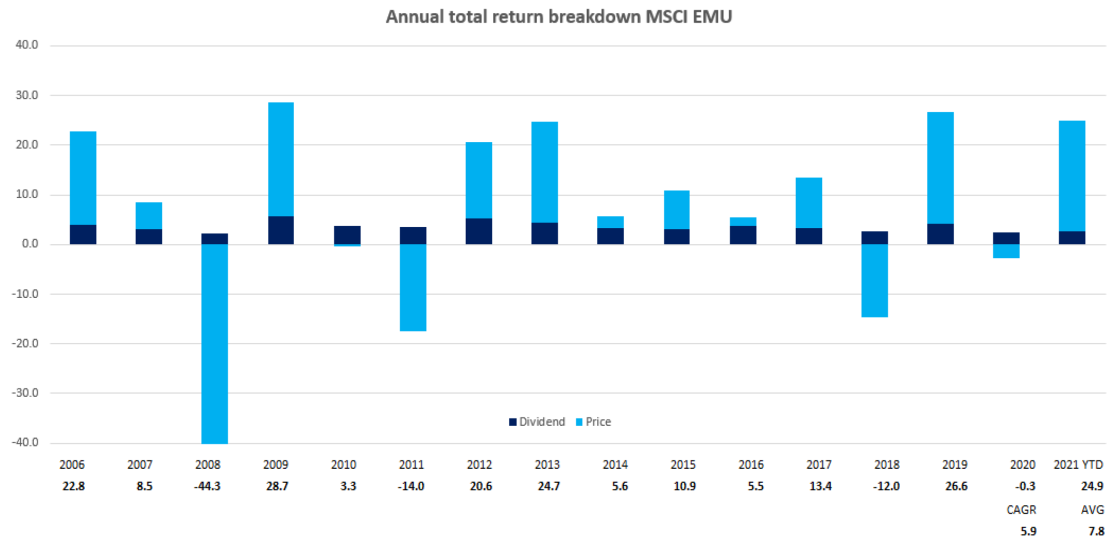



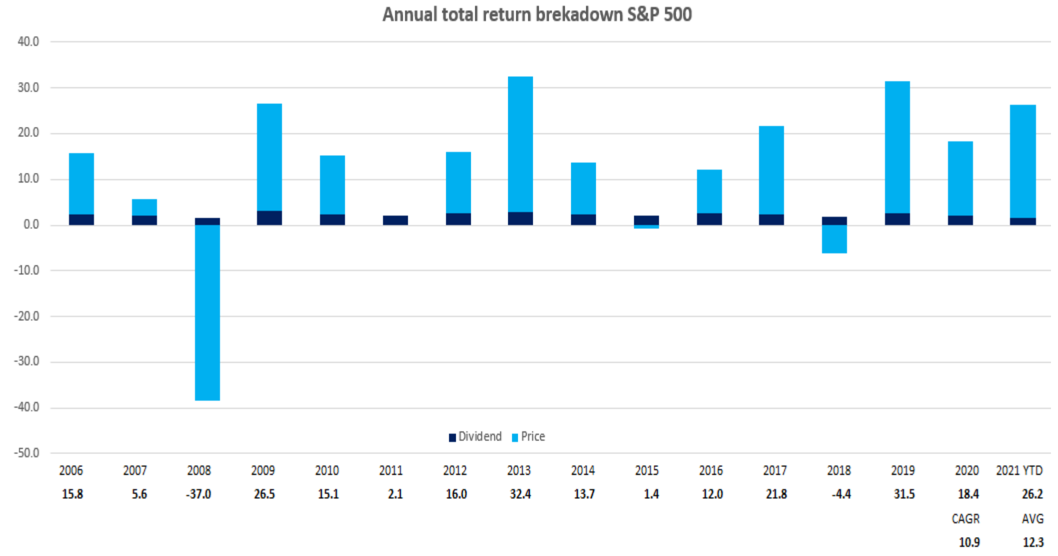



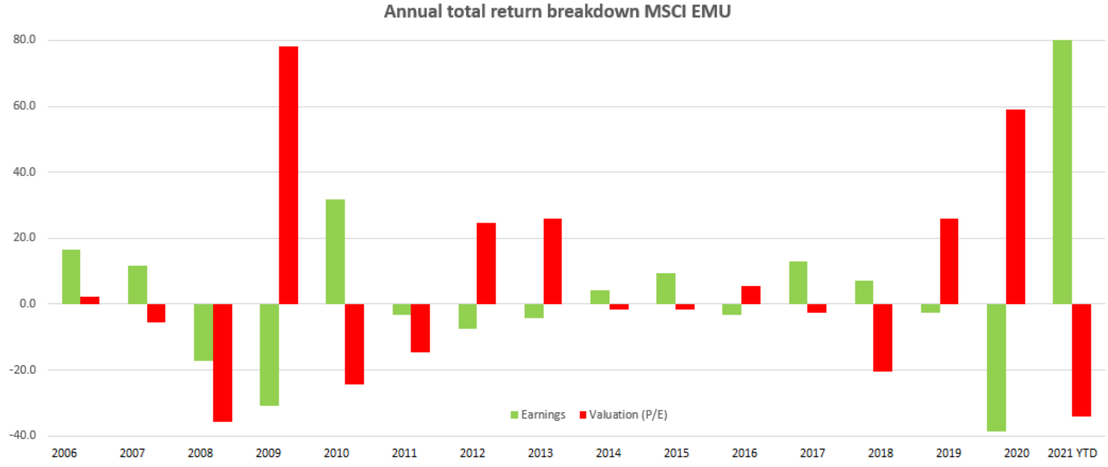



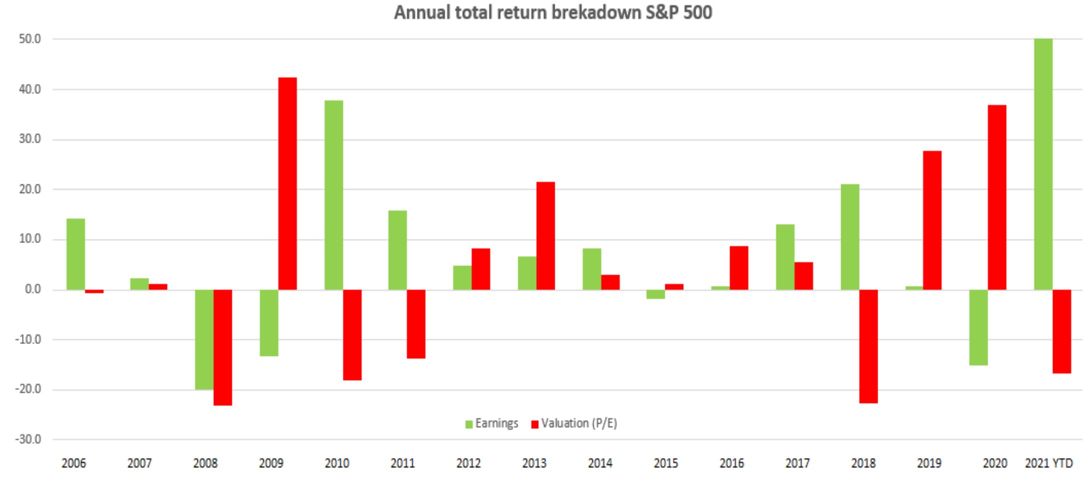

**Earnings growth remains robust supporting valuation**

# Equities Strong earnings growth driving expected performance




**Next to the dividend yield, robust earnings growth can offset a slightly lower valuation impact**

# Key takeaways

## ‘Slowflation’ episode but the recovery still has legs

- **Growth facing some headwinds but not derailed**
  - Virus not eradicated but health systems more resilient thanks to increasing vaccination rate
  - Past peak growth momentum but still robust going forward
  - Higher for longer inflation as softening pace will take more time
  - EU better positioned to benefit from recovery plan and climate change transition
  - Convergence of growth and inflation towards long-term trend
- **Central banks under pressure but not way behind the curve**
  - Fed winding down asset purchase, advancing prospect of rate hike cycle to start in H2 2022
  - ECB pushback early tightening but inflation expectations are on the rise
- **Limited appeal in fixed income**
  - Upward pressure on rates/yields more in the US (curve flattening) than in the EA (parallel shift)
  - Some limited relative value left in corporate bonds
- **Constructive on equities over the medium term**
  - Macro environment supportive to earnings & dividends growth with still some upward potential
  - Moderate positive return looks achievable (as valuations are less lofty than last year)

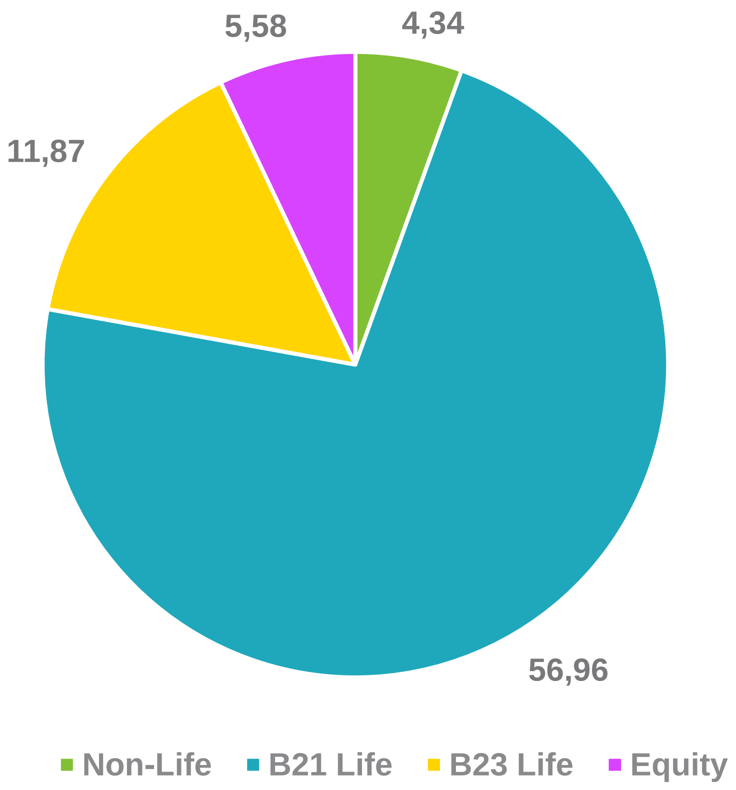
# AG's investment strategy

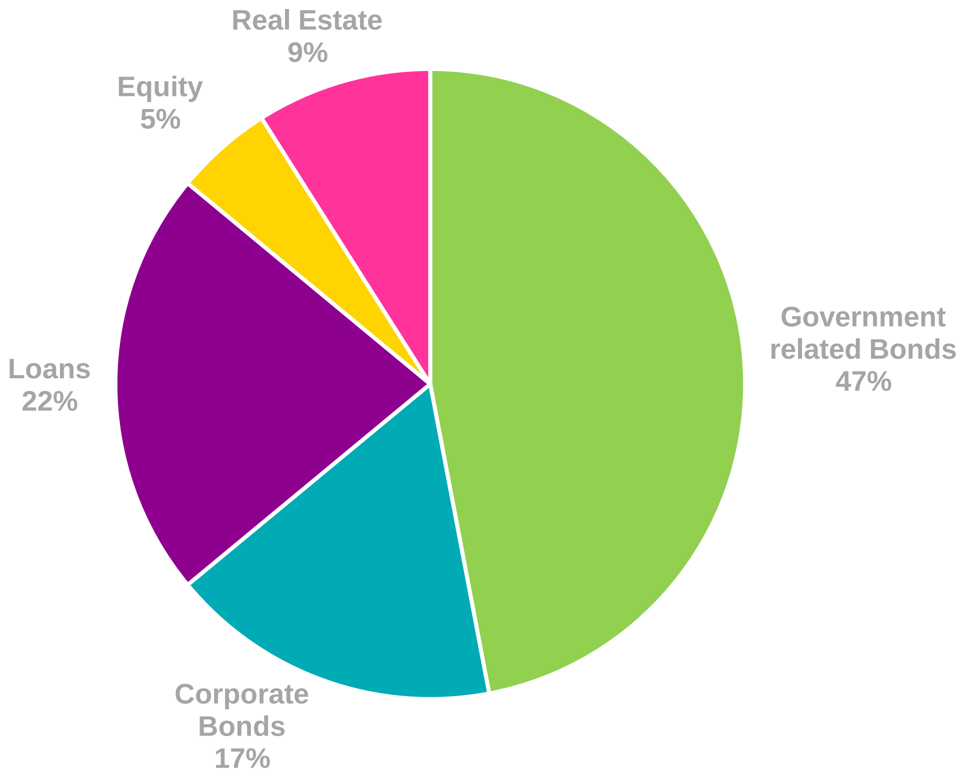
**Wim Vermeir**
**Chief Investment Officer**

# Total Balance Sheet

**78,7 Billion**

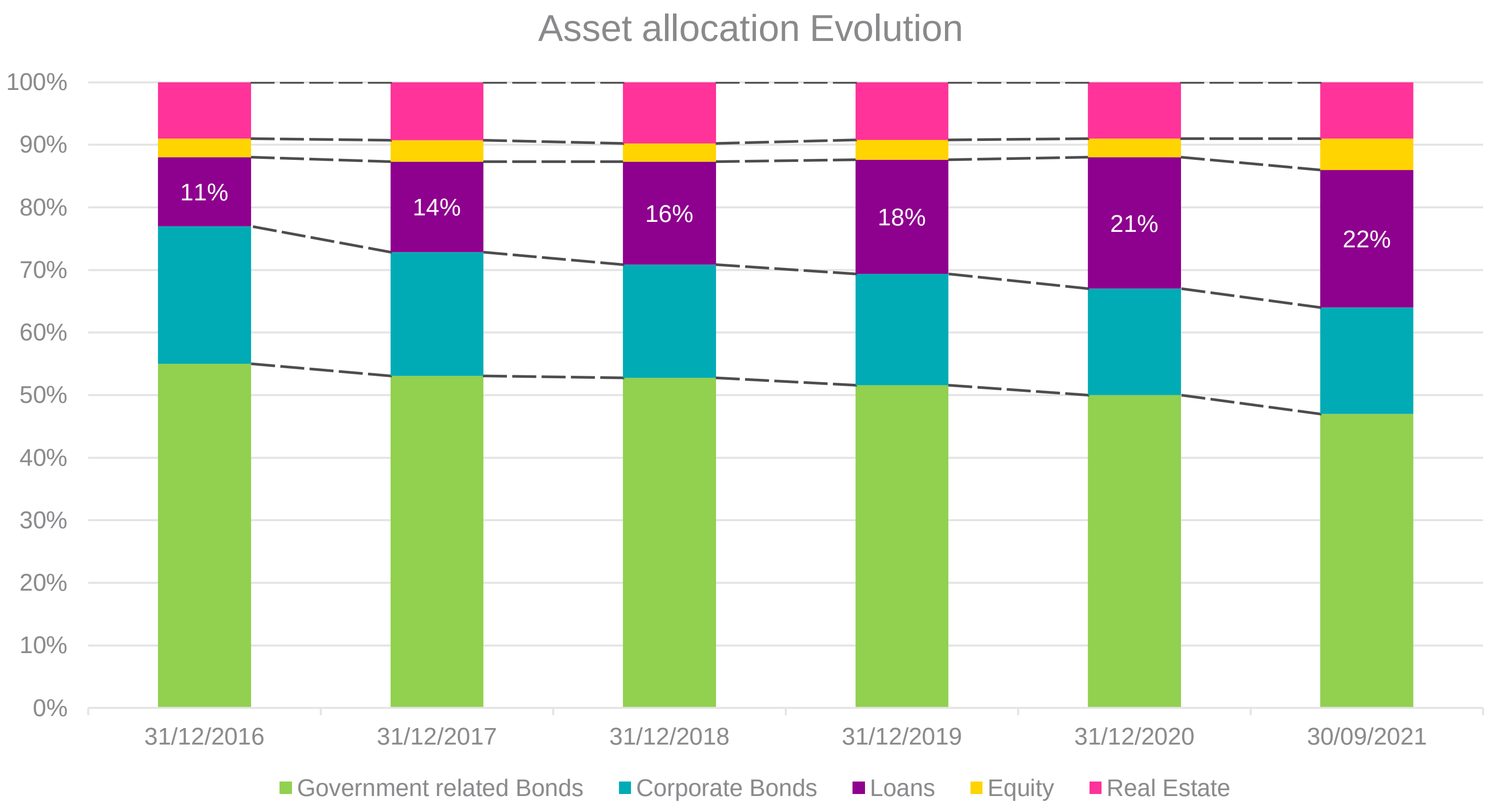
**AG, the largest institutional investor in Belgium**

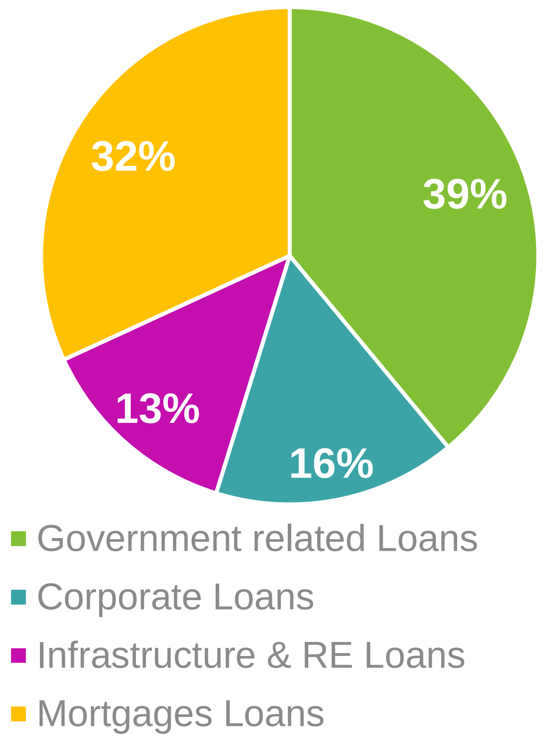



Source: AG 09/2021 (in billion EUR)

# Asset allocation evolution




Direct loans are becoming increasingly important

Focus on defensive and long term loans

# The SRI process

Wim Vermeir
Chief Investment Officer

# The SRI process

## Implementing a Sustainable and Responsible Approach

| | | |
|---|---|---|
| We **exclude** | Controversial weapons · Financial embargo · Tax havens · Weapons industry · Tobacco · Gambling · Food derivatives · Unconventional oils & gas: artic drilling,oil sand,shale oil&gas · Coal | **These activities and countries are fully excluded in our portfolios.** |
| We **integrate** | **ESG integration** | **We do not only analyse the financial figures but also the environmental, social and governance risks.** |
| We **engage** | **Voting & engagement** | **We are in dialogue with companies we are invested in. We demand transparency and incite more commitment to sustainable objectives. We focus mainly on the energy sector and major investments.** |
| We **promote** | **Sustainable offer** | **We offer sustainable products with Towards sustainability label for clients who want more in terms of sustainability.** |

Criteria indicated in yellow are new since September 2021

# Key takeaways

- Focus on illiquid loans like infraloans, mortgages and social housing
- Gradual increase in equity
- Integrated  sustainable and responsible approach

# Thank you !