

# ECONOMIC OUTLOOK & MARKET VALUATION

FURTHER RECOVERY  
IN SIGHT

OLIVIER COLSOUL  
SENIOR STRATEGIST



# AG Insurance in a nutshell

1824



**196 years**  
of expertise



2020

We insure



**1/3** complementary pensions



**1/4** homes



**1/2** 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 2019

Total inflow	EUR <b>6.6</b> billion
Life	EUR 4.5 billion
Non-life	EUR 2,1 billion
Total investment portfolio	EUR <b>72</b> billion
Solvency margin [31/12]	<b>221%</b>
Headcount	<b>4,394</b> employees

## Market share

Source: Assuralia, 2019

**#1 Total**  
**23.7%**



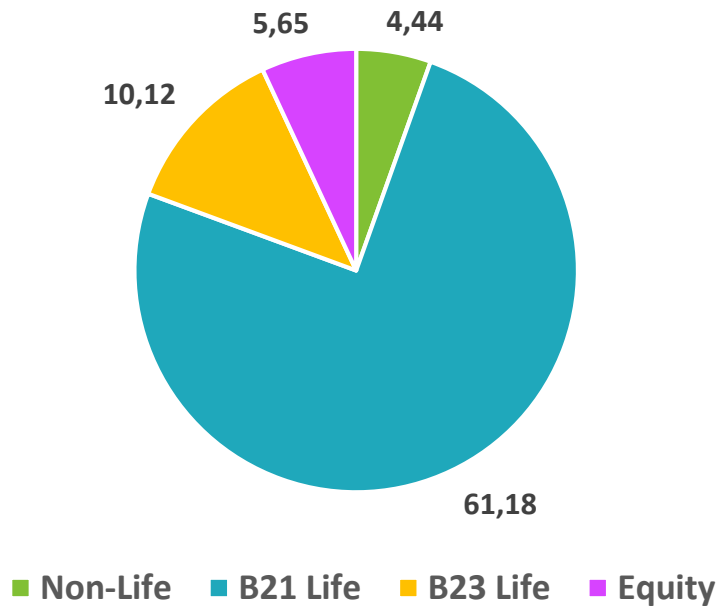
**#2 Non-Life**  
**16,1%**



**#1 Life**  
**29.0%**



# Total Balance Sheet



**81,4 Billion**

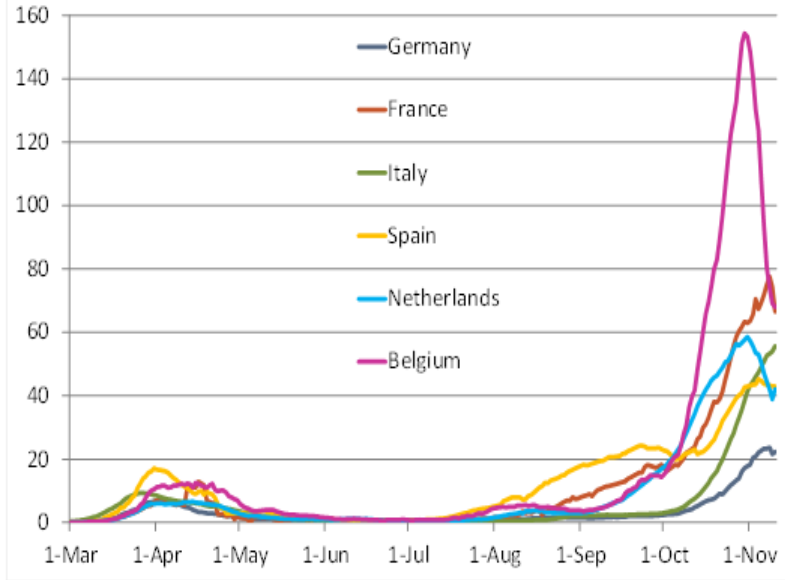
**AG,  
the largest  
institutional  
investor in  
Belgium**

Source: AG 09/2020 (in billion EUR)

# Covid-19 update

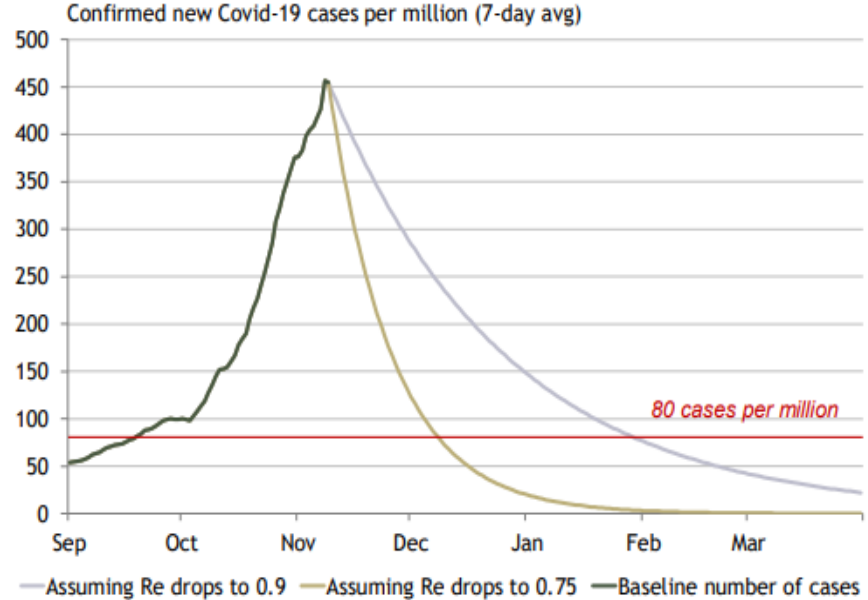
– New targeted lockdown is paying off

Confirmed new SARS-CoV-2 infections, per day, per 100,000 people



Seven-day averages. Source: Johns Hopkins University.

Projected number of cases in the five largest EU economies



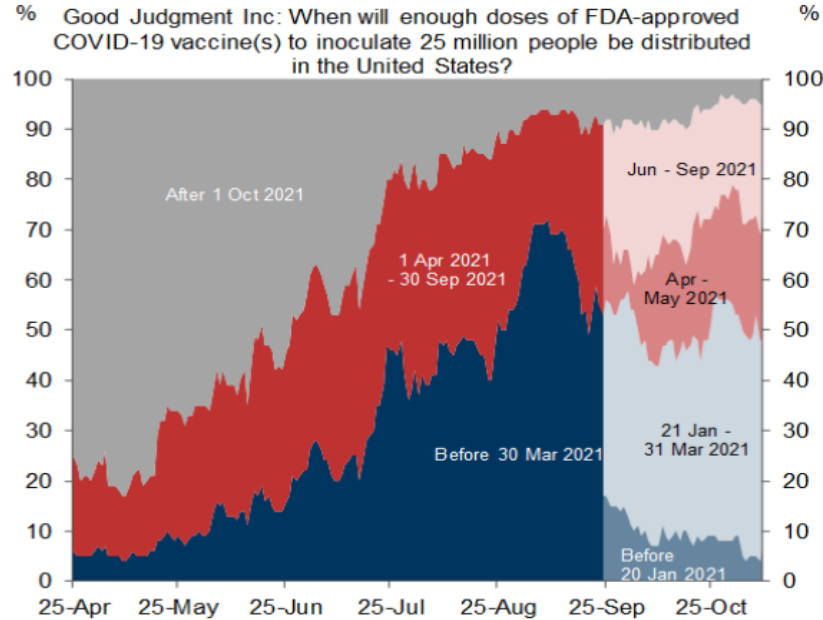
Source: ASR Ltd. / Refinitiv Datastream

Flattening the curve may come sooner than later

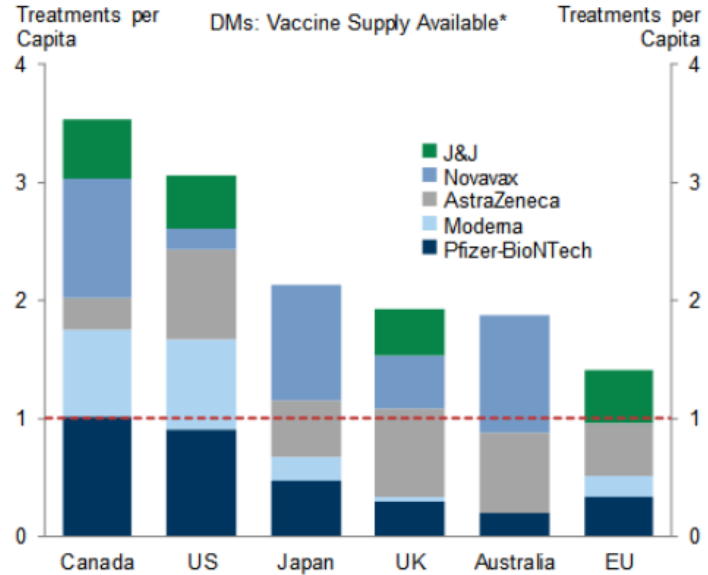
# Covid-19 update

– Very positive news on vaccines

## Superforecasters and Experts Remain Constructive on Vaccine Outlook

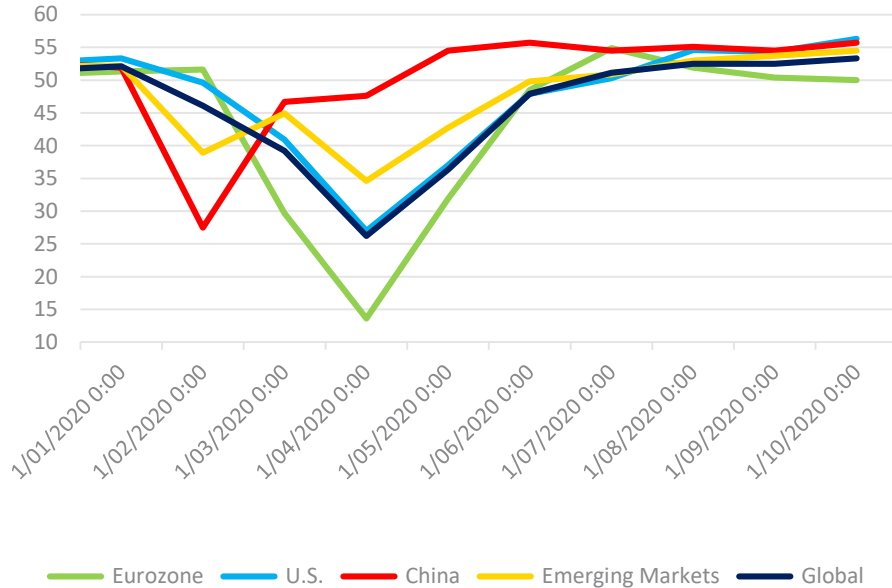


## Elevated Supply Agreements in North America

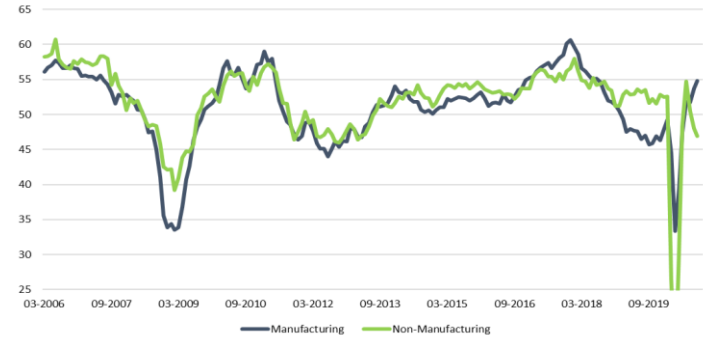


Vaccination timeline may favour North America due to supply agreements

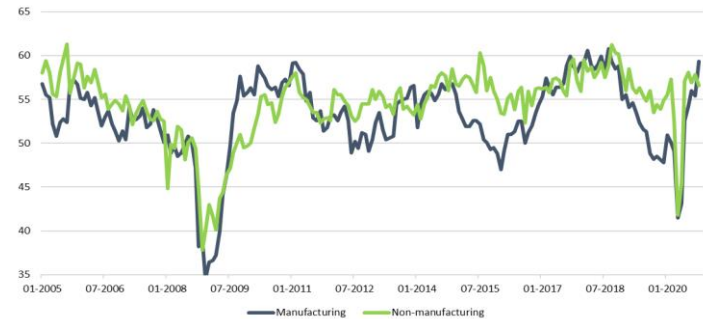
### Composite PMIs



### Eurozone PMI



### US ISM

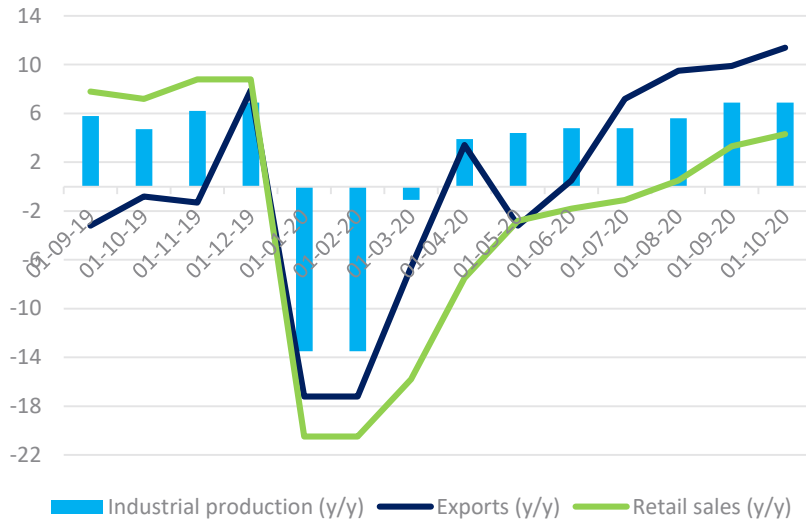


Factory support is driving up the global economy in major regions

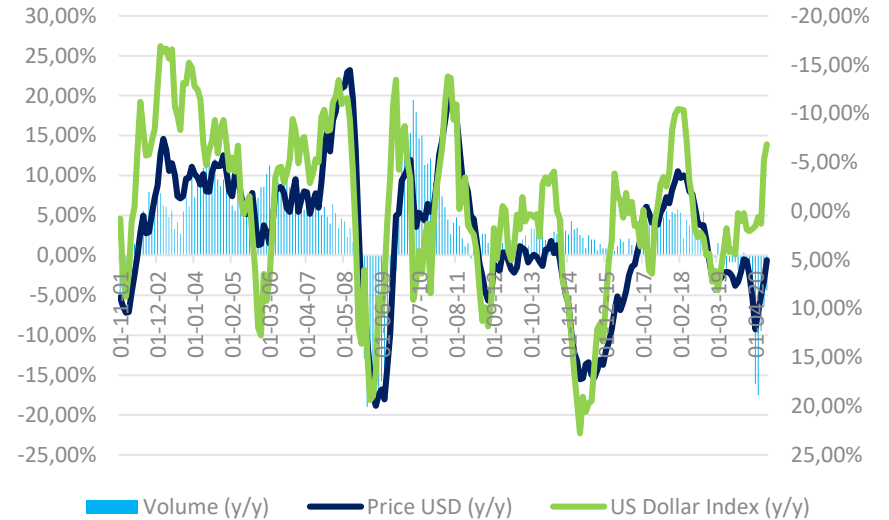
# China

– Economy is back on track

### China activity indicators

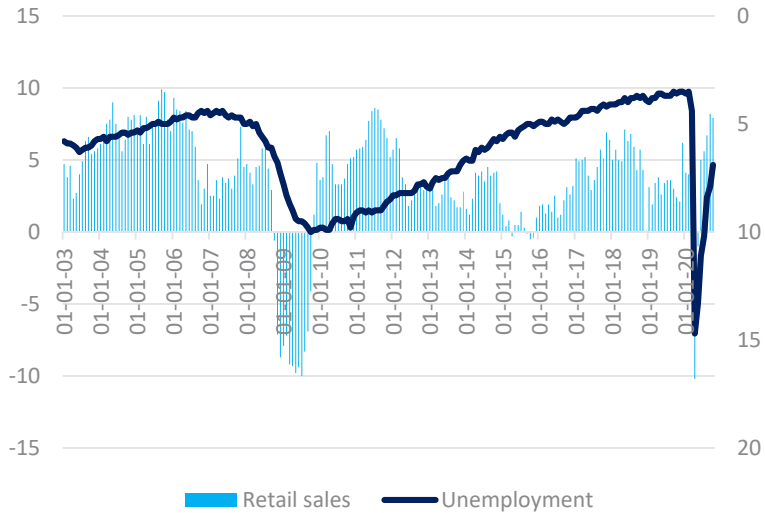


### World trade

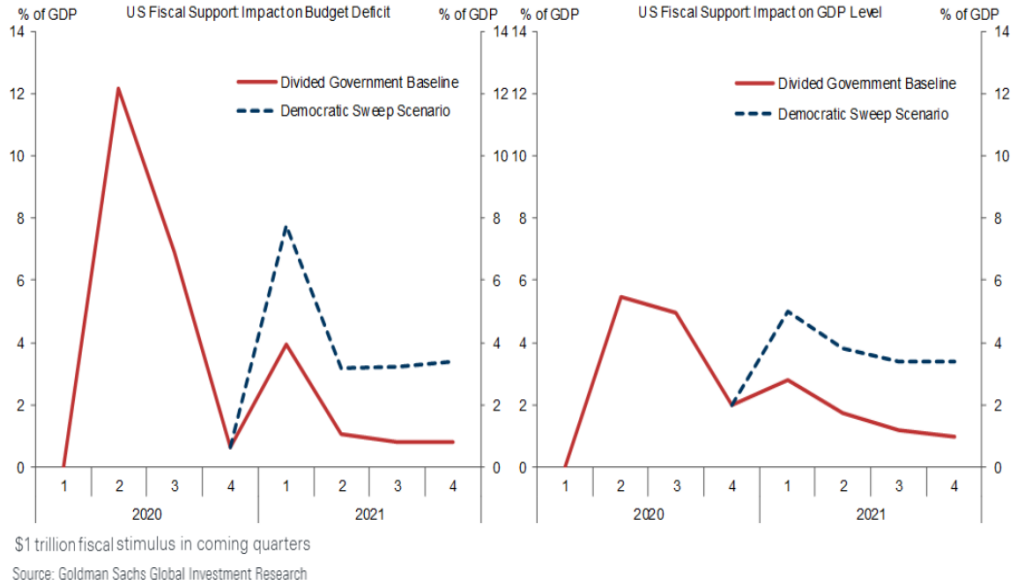


World trade to benefit from China's traction, a lower USD and Joe Biden's win

US activity indicators



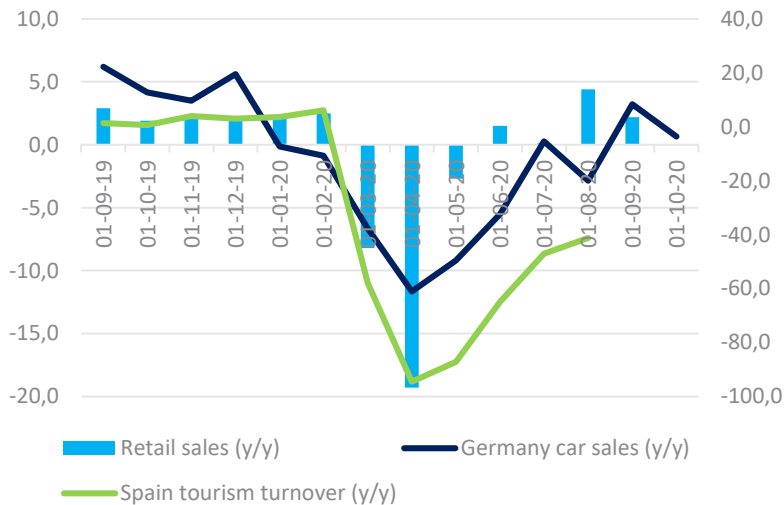
A Small US Fiscal Stimulus Ahead



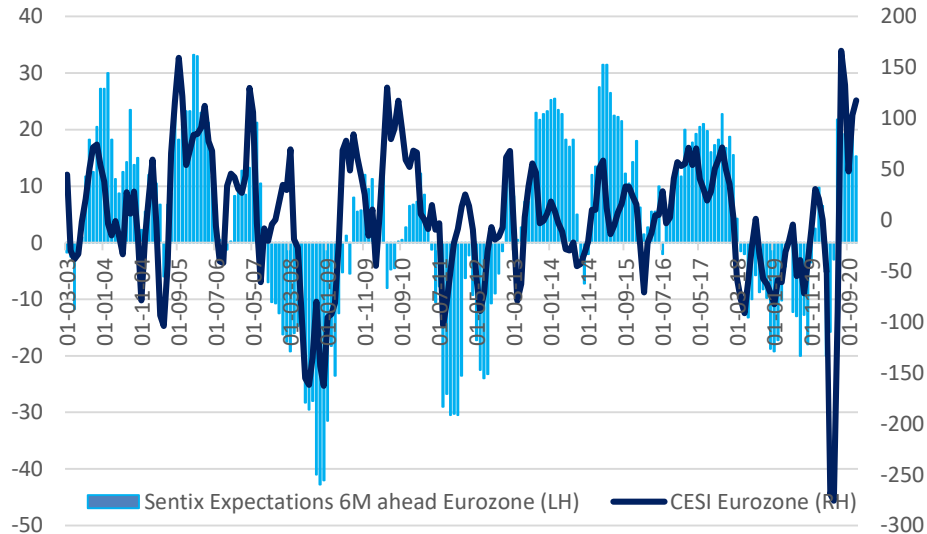
Robust recovery until now but upcoming support likely to be more moderate



### Eurozone activity indicators



### Investor sentiment & Economic surprises



But the picture is expected to improve in a couple of months

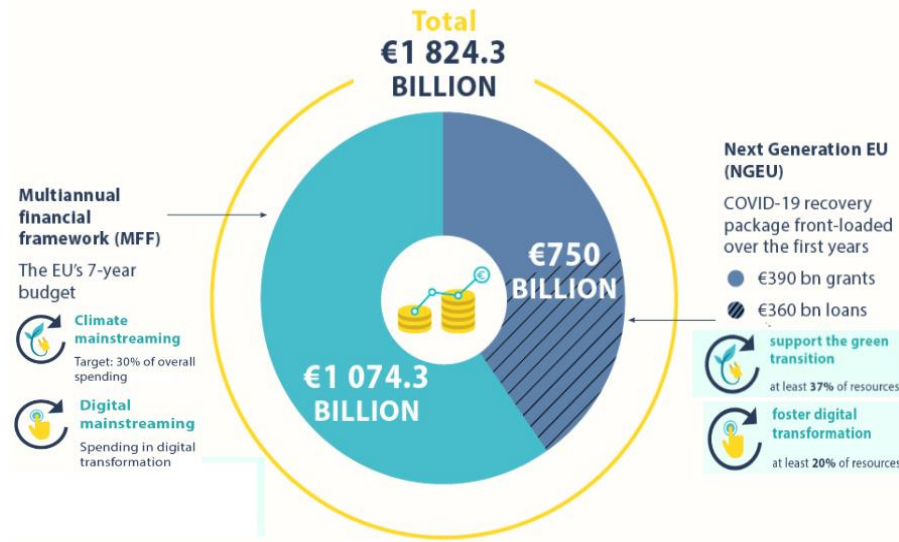
– Recovery plan = EU's largest stimulus package ever

## Next Generation EU maximum allocations

Country	€ Bn	% of GDP
Italy	169	9%
Spain	165	13%
Greece	48	26%
Portugal	35	16%
Others	333	3%
<b>Total</b>	<b>750</b>	<b>5%</b>

Source: European Commission, Morgan Stanley Research

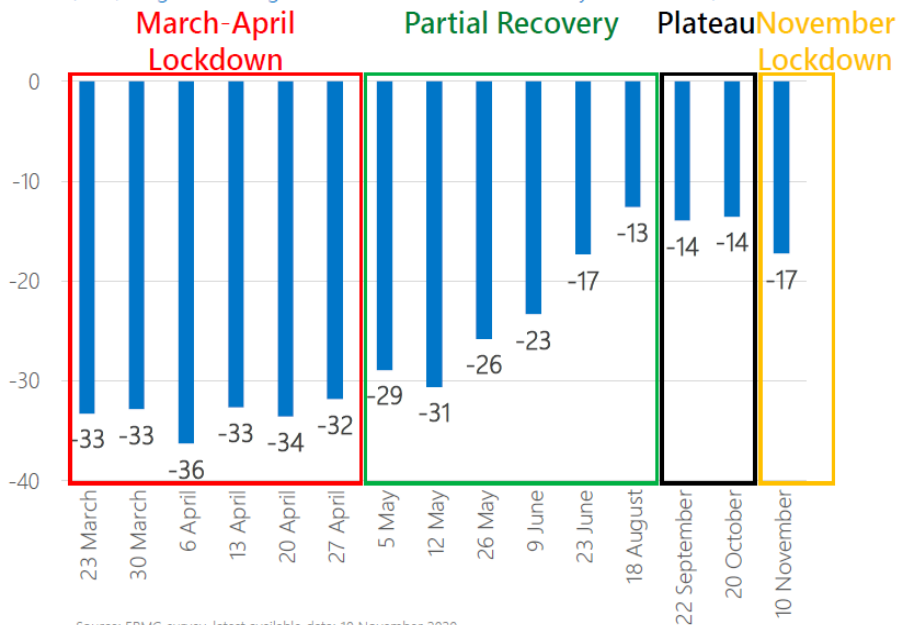
## EU expenditure 2021-2027



For hard hit & highly indebted countries, targeting also green & digital transition

### COVID-19 impact on weekly turnover

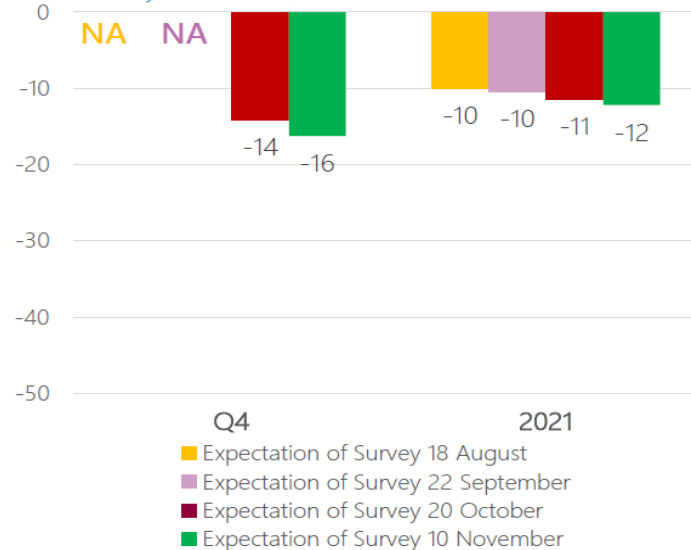
(in %, weighted average based on revenues and industry value added)



Source: ERMG survey, latest available data: 10 November 2020.

### Expected impact on Q4 and 2021 turnover

(in %, weighted average based on revenues and industry value added)

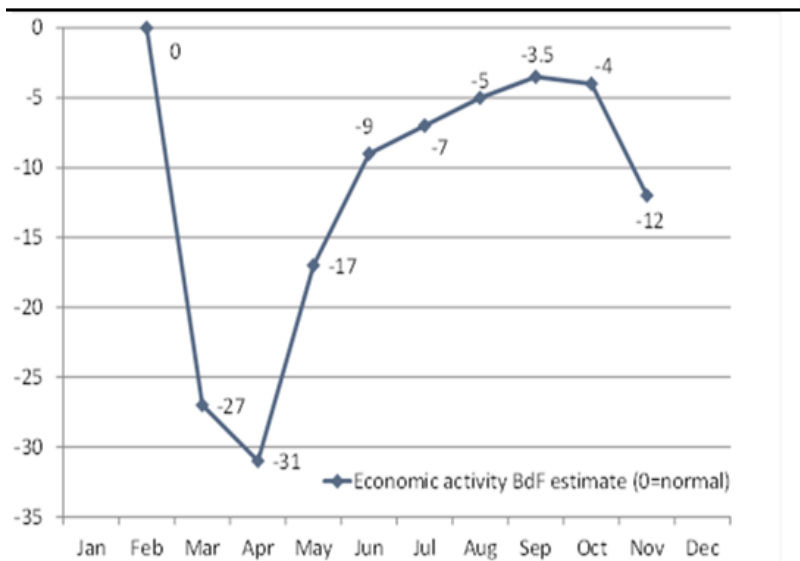


Gradual improvement expected next year (dependent on stringency measures)

# Recovery

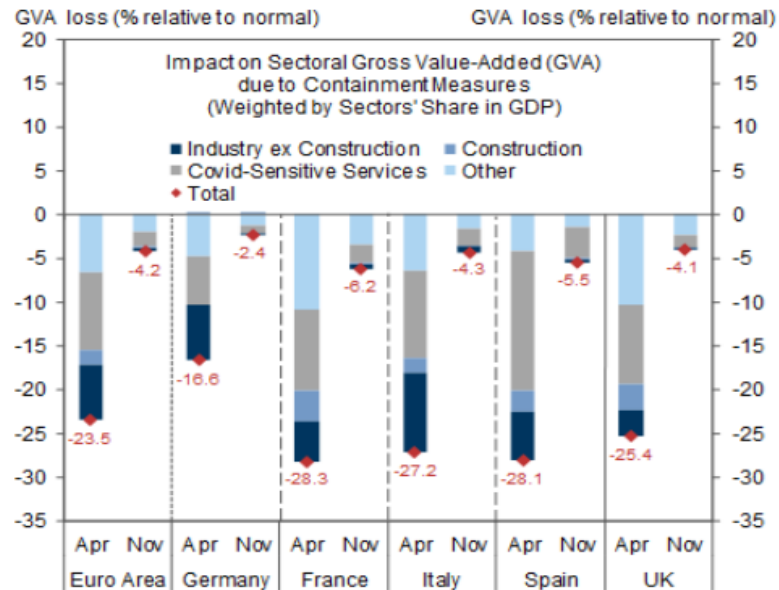
– New lockdown not as severe as the first one

Banque de France estimate of French economic activity



Estimate of economic activity compared to the normal level before the pandemic for a typical week. Source: Banque de France

## A New Contraction

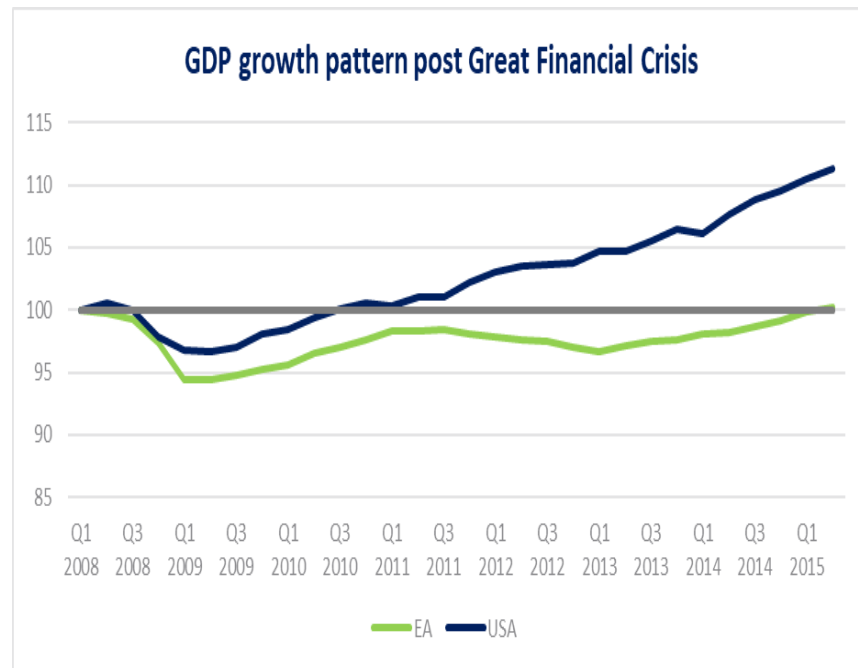
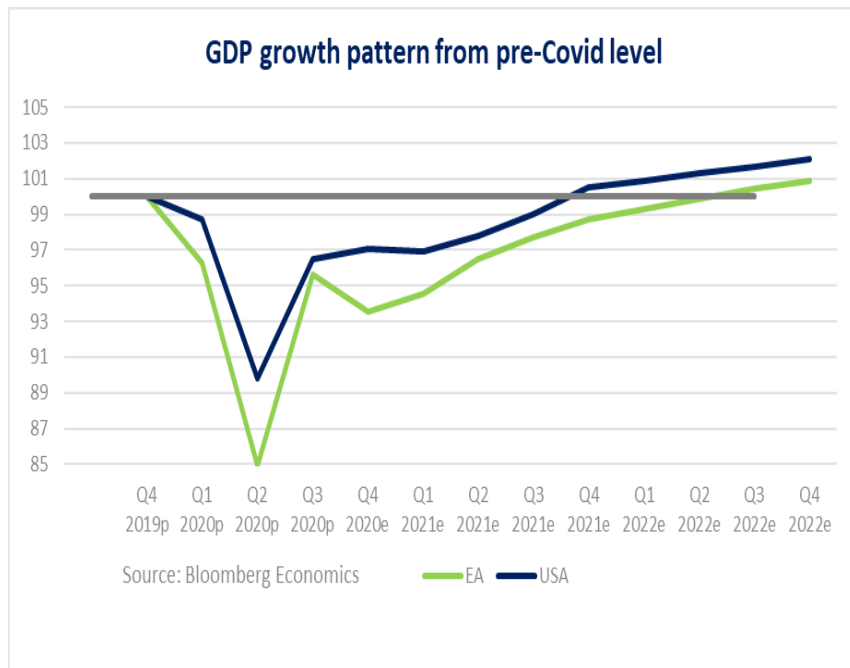


Source: Goldman Sachs Global Investment Research

Expected economic pullback to be about 1/3 (or less) of the spring slump

# Recovery


– Square root scenario delayed, not derailed



Prolonged support measures should help shorten time to recover in Europe

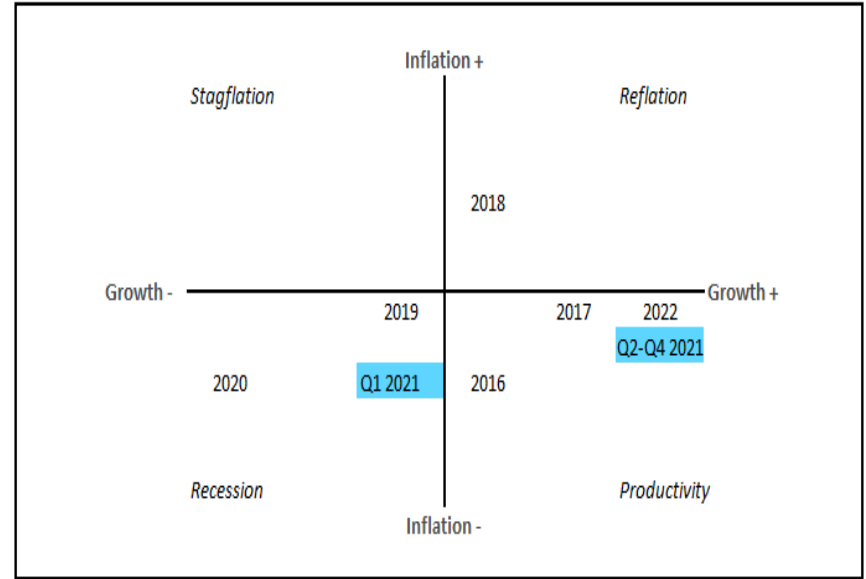
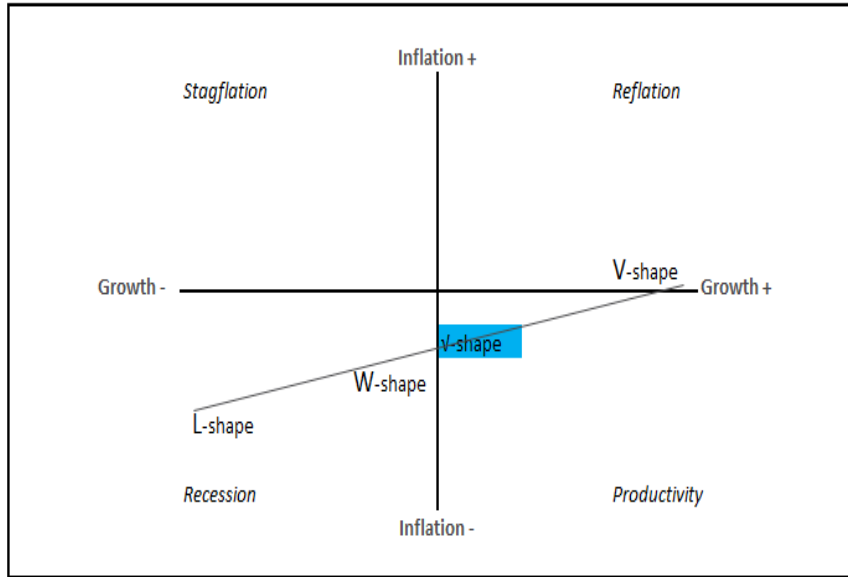
# 4 scenarios

– Square root tilted more towards V-shape than W-shape

	BEST CASE = V-shape	BASE CASE = square root	BEAR CASE = W-shape	WORST CASE = L-shape
Description	Fast progress for a vaccine ready to market after which the outbreak is rapidly contained. <b>Almost post Covid period.</b>	Virus circulation with social distancing & local lockdowns. Vaccine solution takes some time. <b>Cum Covid period but manageable.</b>	Recurrent large lockdowns. Vaccine solution making slow progress. <b>Cum Covid period with a lot of volatility.</b>	Large infection among population leading to severe loss of confidence. Poor vaccine efficacy. <b>Doom &amp; gloom Covid period.</b>
Economic impact	Strong rebound ahead with positive surprises.	Gradual and partial recovery extending over time	Disappointing, small and very bumpy recovery.	Lasting economic disruption with recession/depression risk.
Central banks	Gradual and prudent decrease of exceptional measures.	Committed to maintain support as long as needed.	Forced to increase support due to economic relapse.	Continuous action at full speed but less and less effective.
Equities	Upturn keeps ongoing thanks to positive sentiment.	Range-bound or slow motion appreciation (earnings revision up).	Come-back of a risk-off environment.	Downturn similar to previous recession episodes.
Interest rates / Corporate spreads	Risk-free yields moderately up. Corporate/ peripheral spreads could tighten to previous lows.	Risk-free yields stable. Corporate/ peripheral spread retracement possible but limited.	Downward pressure on risk-free yields. Renewed corporate/ peripheral spread widening	Strong downside pressure on safe haven yields. Corporate/ peripheral spreads increase sharply.
Government spending				

# 4 scenarios

– Square root path means gradual positive evolution

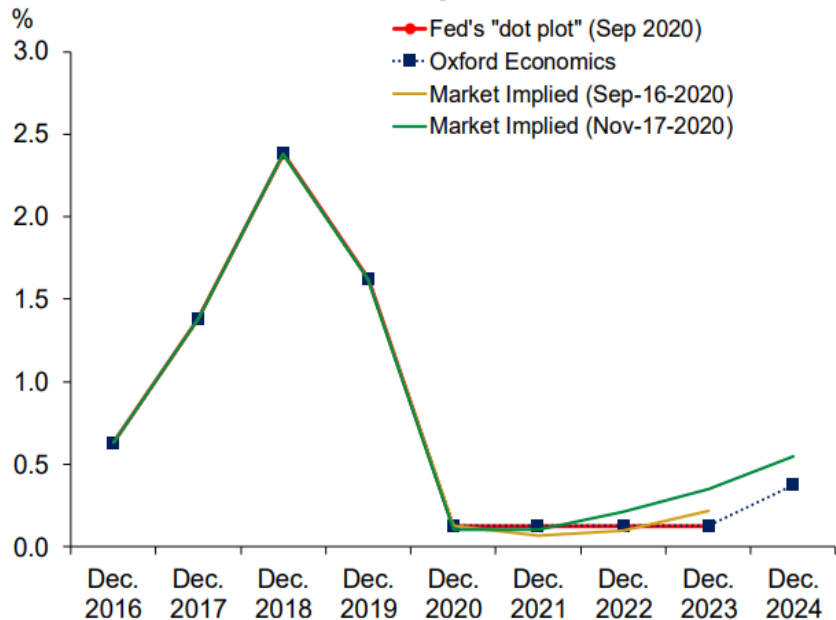


Economic environment expected to brighten up in the course of 2021

# Interest rates

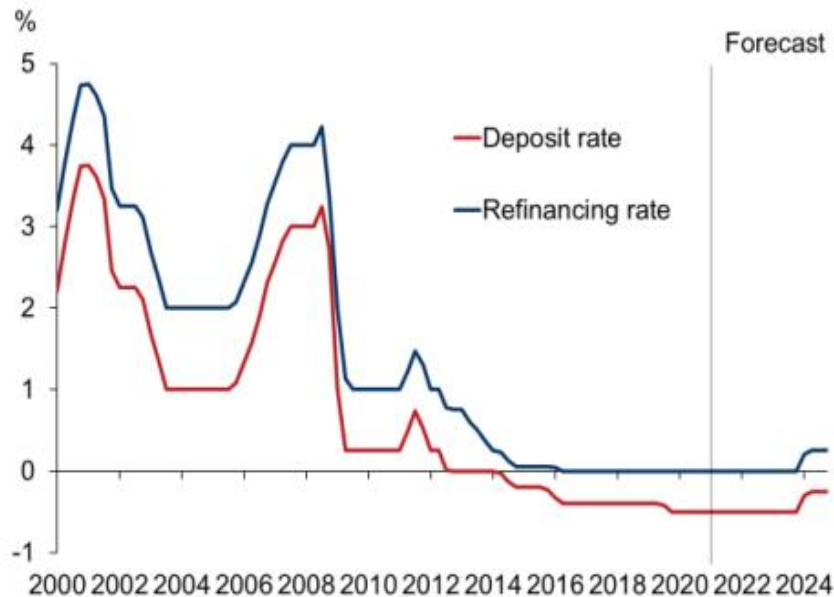
– Lower for longer

## US: Federal funds rate expectations



Source: CME/Federal Reserve/Oxford Economics

## Eurozone: ECB refinancing and deposit rate



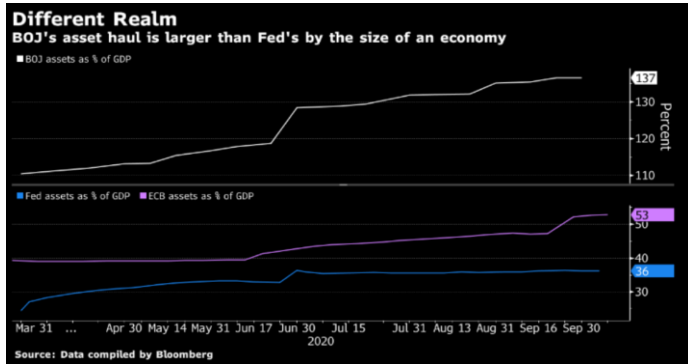
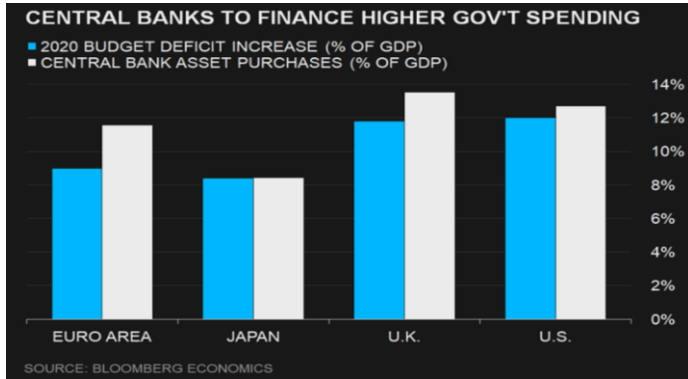
Source: Oxford Economics/Haver Analytics

Fed on hold for the next three years and ECB unlikely to be hawkish prematurely

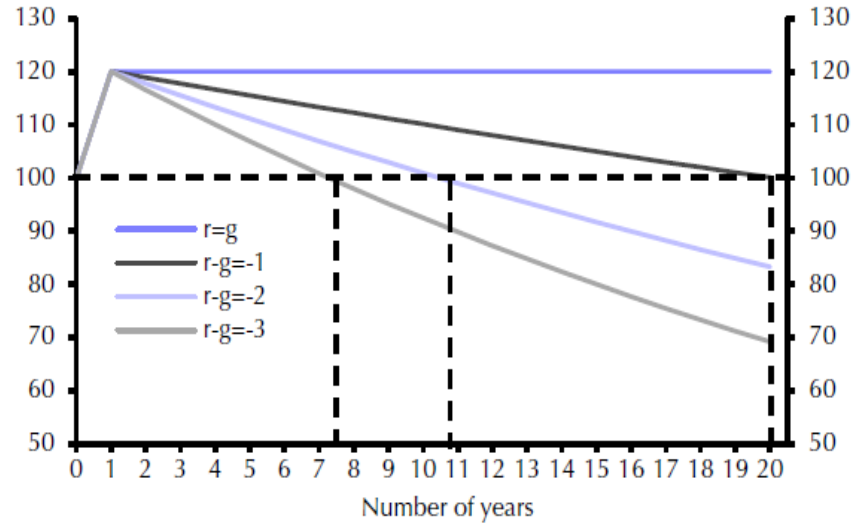


# Debt sustainability

– Relying greatly upon central banks



## Stylised Example of Government Debt as a % of GDP (Assuming Primary Budget is Balanced)



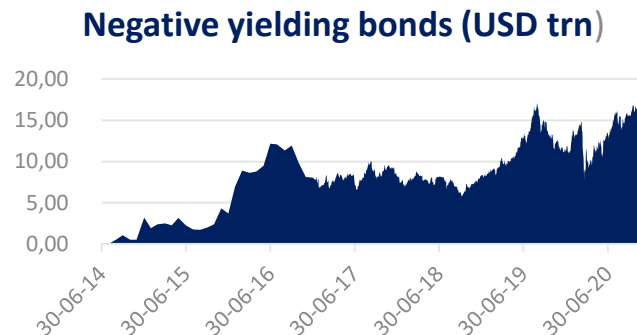
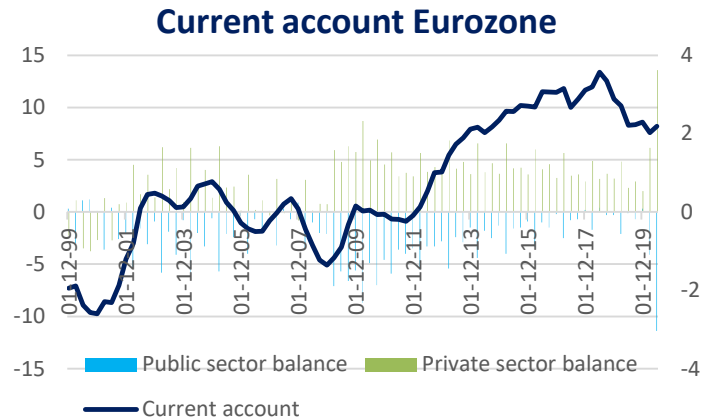
Source: Capital Economics

QE to facilitate fiscal impulse and to foster an already subdued nominal growth

# Interest rates

– Negative yields across the board

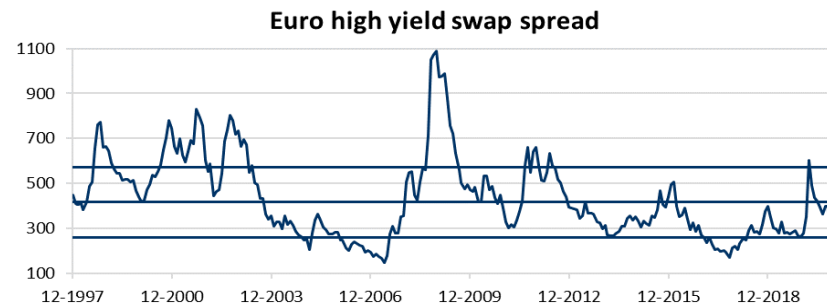
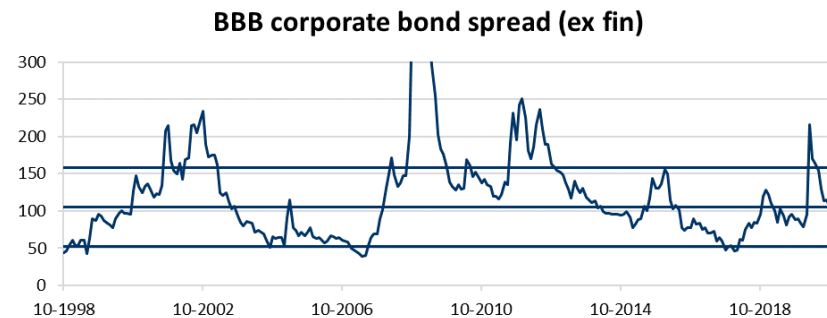
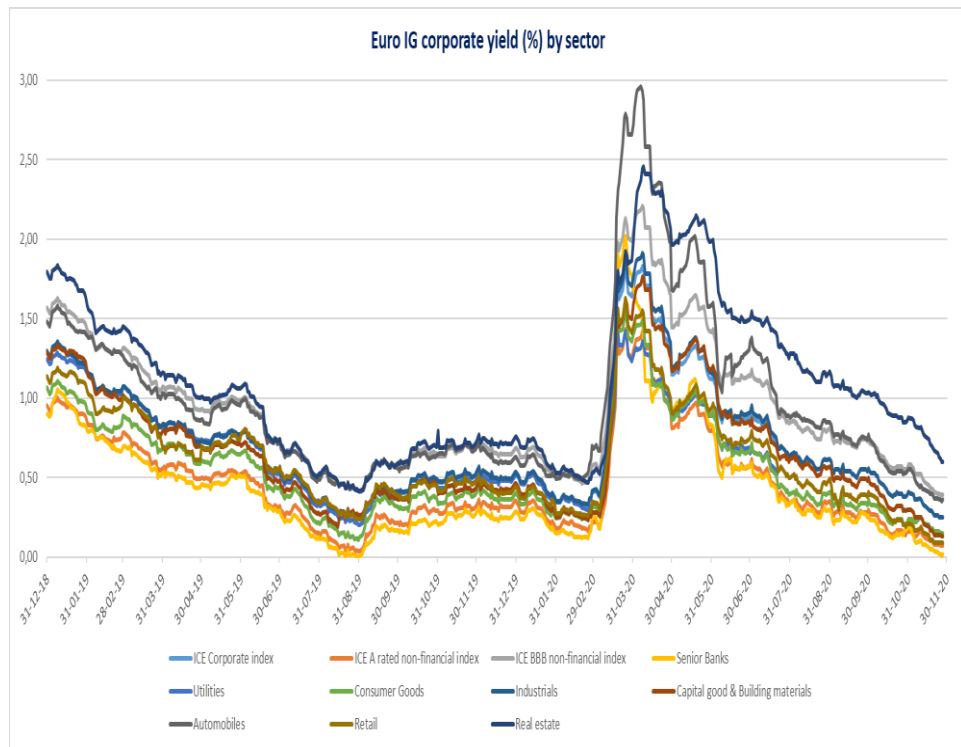
	Sovereign curves					
	2Y	5Y	7Y	10Y	15Y	30Y
Germany	-0,77	-0,77	-0,71	-0,59	-0,40	-0,18
Belgium	-0,75	-0,68	-0,56	-0,40	-0,18	0,30
Austria	-0,78	-0,71	-0,64	-0,45	-0,21	0,07
Finland	-0,80	-0,70	-0,61	-0,43	-0,20	-0,06
France	-0,71	-0,68	-0,58	-0,35	-0,19	0,32
Netherlands	-0,77	-0,73	-0,65	-0,51	-0,43	-0,11
Italy	-0,41	0,06	0,28	0,63	0,99	1,49
Spain	-0,59	-0,39	-0,24	0,06	0,37	0,87
Ireland	-0,67	-0,62	-0,50	-0,28	-0,06	0,31
Portugal	-0,68	-0,44	-0,24	0,02	0,37	0,73



Savings glut from strong current account also explains the low yield environment

# European corporate bonds

– Still some relative value left



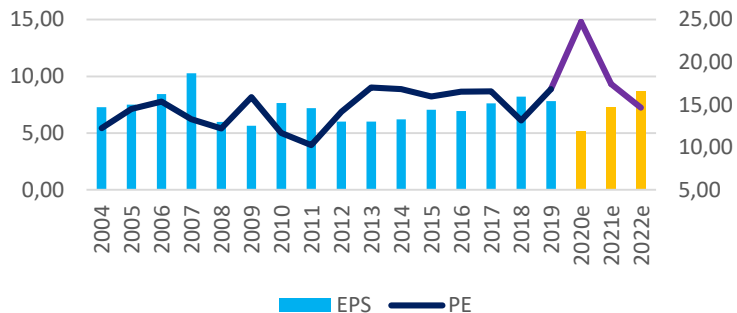
Yield and spread compression almost back to pre-crisis level

# Equities Europe

– Some upside potential over time

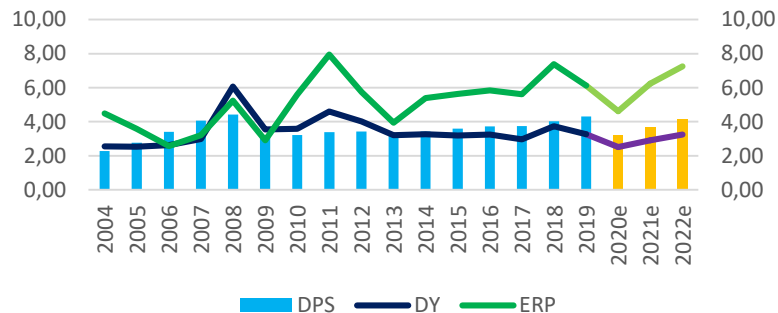
## MSCI EMU Earnings

(CAGR EPS +0,5% 2004-2019)

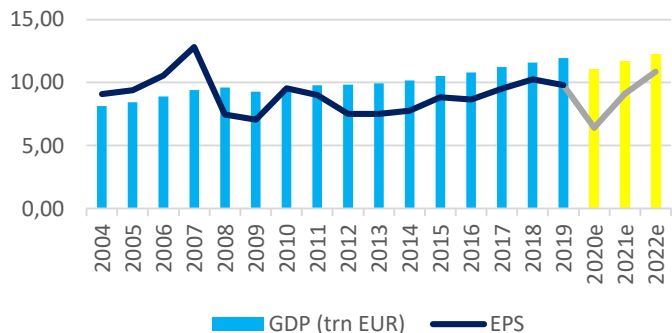


## MSCI EMU Dividends

(CAGR DPS +4,4% 2004-2019)



## GDP vs EPS



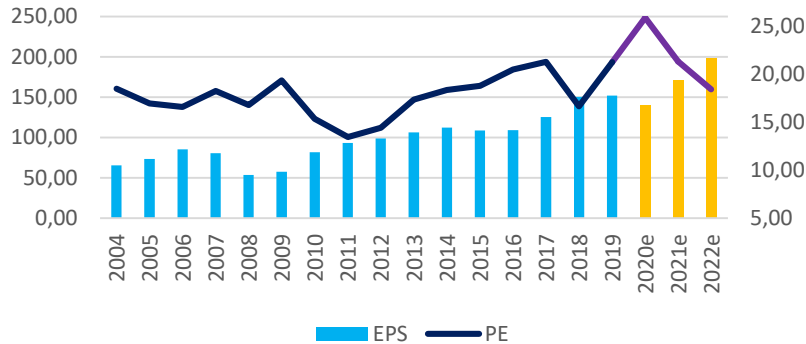
MSCI EMU				
YEAR	2020	2021	2022	2020-2022
EPS growth	-35,1	41,9	19,1	9,7%
DPS growth	-25,8	15,4	11,6	-4,4%
PE	24,71	17,42	14,63	
ERP	4,63	6,24	7,25	
DY	2,52	2,90	3,24	

EPS recovery not expected before 2022,  
dividend yield ok, ERP attractive

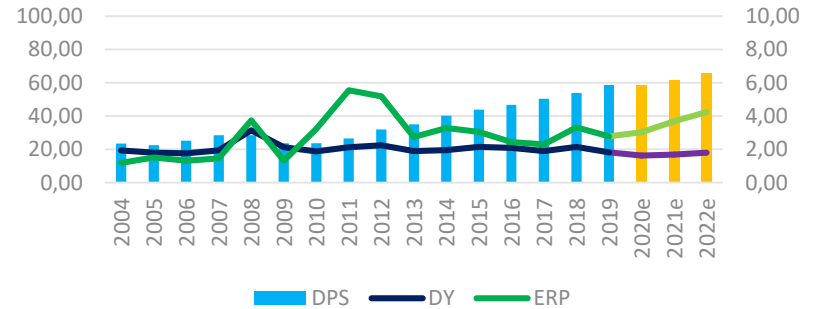
# Equities USA

– Lofty valuation but with positive earnings revision

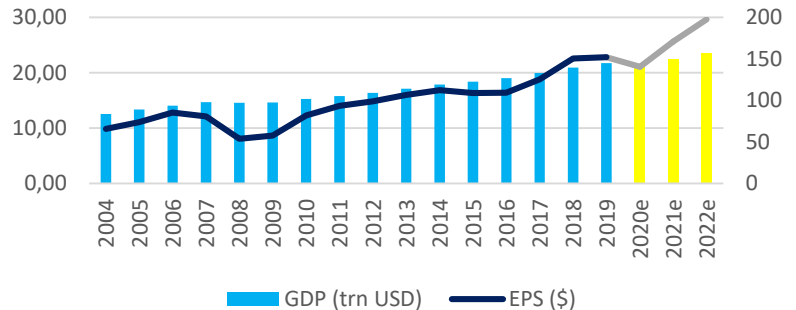
**S&P 500 Earnings**  
(CAGR EPS +5,8% 2004-2019)



**S&P 500 Dividends**  
(CAGR DPS +6,3% 2004-2019)



**GDP vs EPS**



S&P 500				
YEAR	2020	2021	2022	2020-2022
EPS growth	-15,6	21,6	15,7	18,7%
DPS growth	0,3	4,4	6,7	11,7%
PE	25,89	21,30	18,41	
ERP	3,02	3,67	4,24	
DY	1,62	1,69	1,80	

EPS recovery already expected in 2021,  
strong unbroken growth track-record

### ▶ **Post-lockdown recovery delayed not derailed**

- Less draconian 2<sup>nd</sup> lockdown
- Gradual roll-out of vaccines
- Implementation of EU recovery plan
- Square root growth path

### ▶ **Low yields for longer**

- Financial repression: bottom interest rates + QE extension
- Savings glut

### ▶ **Central banks leading investors towards risk taking**

- Government bonds: Negative carry, upward trends on long term yields limited
- Corporate bonds: Some relative value, spread retracement may have some way to go
- Equities: Lofty valuations but macro picture set to improve over time and influence positively earnings and dividends, constructive view over the long term