Equity markets

In the first half of January, equity markets continued their positive momentum of the past year, thanks to the partial trade agreement between the US and China, and an improving economic outlook. The flare-up of the US-Iran conflict was only short-lived. The coronavirus outbreak in China completely wiped out the month's performance. The market fears that green shoots of the economic recovery are at risk. To assess the impact of the virus, the comparison with the SARS virus of 2003 is often being made. The market tries to estimate the economic consequences of the virus based on its medical impact (in terms of infectivity and mortality), on its impact on economic activity in China and on China's importance for the global economy. However, previous epidemics have shown that, in general, the economic impact is short-lived. The closing of the stock market during the last week of January for the Chinese New Year meant that the equity market in China could not react to the virus. The publication of corporate profits for the fourth quarter of 2019 was another focus for attention for the equity markets. By the end of the month, almost half of the S&P500 companies had published their results. These are (traditionally) better than expected, with technology companies in particular performing strongly, with names such as Apple, Amazon and Microsoft. Results from semiconductor producers were also well received. So far, fourth-quarter earnings growth for the S&P500 is still slightly negative (-0.3%). Earnings expectations for the current quarter are revised downwards less than average.

Equity Markets	January	3 months	Since 31/12	12 months
MSCI EMU NR	-1.7%	2.0%	-1.7%	16.0%
MSCI EUROPE NR	-1.3%	3.5%	-1.3%	17.2%
MSCI USA NR	1.5%	7.6%	1.5%	25.5%
MSCI JAPAN NR	-0.1%	1.9%	-0.1%	15.1%
MSCI EM. MARKETS NR	-3.4%	3.0%	-3.4%	7.5%
MSCI AC WORLD NR	0.2%	5.6%	0.2%	20.1%

(Performances in EUR dd. 31/01/2020) (Source : Bloomberg)

Bond markets

Concerns about the economic impact of the coronavirus pushed global bond yields lower. The hard-earned upward trend in interest rates since the last quarter of last year was completely reversed. The German 10-year interest rate fell to -0.44% compared to -0.19% at the beginning of the month. The US interest rate fell to 1.52% compared to 1.92%. Despite the surge in political instability in Italy, the spread for Italian bonds narrowed in January. The leader of the Five Star Movement, Di Maio, resigned, but this did not put the government at risk. Moreover, the coalition partner in the government, Partito Democratico, did unexpectedly well in local elections. Matteo Salvini's Lega had hoped to become the biggest party, thus further destabilising the government. Corporate bond spreads widened slightly in January for the quality segment (Investment grade) and somewhat more for the high yield segment. The numerous new corporate bond issues at the start of the year were absorbed smoothly by the market. The general risk aversion played a role in the second half of the month.

Government Bond Yield 10 y	Current	January	3 months	Since 31/12
Belgium	-0.19	-0.28	-0.09	-0.28
France	-0.18	-0.29	-0.08	-0.29
Germany	-0.43	-0.25	-0.03	-0.25
Italy	0.94	-0.48	0.01	-0.48
Greece	1.17	-0.30	0.01	-0.30
Spain	0.24	-0.23	0.00	-0.23
United States	1.51	-0.41	-0.18	-0.41
Japan	-0.07	-0.06	0.07	-0.06

(Evolution until 31/01/2020) (Source : Bloomberg)

Central banks and monetary policy

The central banks of the major regions of the world all held a policy meeting last month, but none announced a change in monetary policy. The Federal Reserve left its official communications virtually unchanged and currently does not see any threat in the coronavirus that would prompt it to change monetary policy. The European Central Bank was only marginally more optimistic about the economic prospects in the euro zone. The market is now wondering whether the ECB will adjust its monetary policy in the course of 2020 when it revises its policy options. The Norwegian central bank confirmed the pause in the trend towards a stricter monetary policy. The Bank of England left its interest rate unchanged. Improved business confidence following the Brexit agreement implies that there is no need for an additional monetary stimulus in the short term.

Central Bank Rates	Current	Latest adjustment	Date
Fed funds	1.50 - 1.75%	-0.25%	Oct. 2019
ECB deposit rate	-0.50%	-0.10%	Sept. 2019

(Situation on 31/01/2020) (Source : Bloomberg)

Currencies

The dollar strengthened in the course of January and attempted to break through the level of 1.10 against the euro. The economic figures in the US remain solid, while those in Europe have recently suffered some setbacks. In addition to the dollar, other “safe” currencies such as the Swiss franc and the Japanese yen also performed well. For the Swiss franc, the decision of the US to place Switzerland on its “Monitoring List” of countries that are monitored because of their currency practices also plays a role. The market assumes that the Swiss Central Bank will be less inclined to curb the rise of the franc. The UK has formally left the EU and entered into the transition period. The British pound was able to hold onto its gains of recent months. The other dollar currencies fell due to the weakening of commodity prices while the Norwegian krone lost ground due to lower oil prices. The Chinese currency strengthened in the first half of the month, thanks to the finalising of the first phase of the trade agreement with the US. But in the second half of the month, this gain was largely erased due to concerns regarding the coronavirus.

Currencies	Current	January	3 months	Since 31/12
USD	1.109	1.1%	0.5%	1.1%
GBP	0.840	0.7%	2.5%	0.7%
JPY	120.17	1.3%	0.3%	1.3%
CHF	1.069	1.5%	2.8%	1.5%

(Evolution versus EUR until 31/01/2020) (Source : Bloomberg)

Commodities

Oil prices experienced extreme fluctuations in January. At the beginning of the month, the price for Brent rose above 70 dollars per barrel due to the attack on the Iranian general Qasem Soleimani by the US. Iran's cautious response did not indicate an escalation of the conflict and quickly brought oil prices back to the pre-attack level. The outbreak of the Chinese coronavirus caused the market to fear a slower global demand for oil due to the impact on economic growth, first and foremost in China. Oil prices fell below 60 dollars per barrel. This despite the virtually complete standstill of production in Libya due to a resurgence of the internal conflict between the rival groups in the country. OPEC+ is considering bringing forward the March-scheduled meeting to February in order to decide on an extension of the production restrictions. Industrial commodities were down. Copper was initially able to build even further on the profit from December, but then also fell prey to the coronavirus and eventually had to surrender 9.9% (in USD) over the month. Gold prices rose in two phases in January, first in response to the Iranian conflict and next due to the uncertainty about the economic impact of the coronavirus. The price of gold reached its highest level since April 2013.

Commodities	Current	January	3 months	Since 31/12
Commodities (GSCI)	388.80	-10.9%	-4.6%	-10.9%
Oil (Brent)	58.16	-11.9%	-3.4%	-11.9%
Gold	1589.16	4.3%	4.8%	4.3%

(Evolution in USD until 31/01/2020) (Source : Bloomberg)