Equity markets

After a disappointing performance in 2018, equity markets had an excellent year 2019. At the beginning of the year, the main driving force for the stock market advance was the shift in central bank monetary policy (from less flexible in 2018 to new easing in the course of 2019). As from May, the markets were dominated by a new tariff escalation in the trade conflict between the United States and China. After the summer, the boom resumed, supported by signals of a stabilisation in economic activity and the prospect of a first phase of a trade agreement. After the summer months, the markets were also characterised by a rotation both at a sector level and - to a lesser extent - at a geographical level. The European equity markets, which are heavily weighted in the cyclical and financial sectors, performed relatively stronger after the summer. In December, it was above all the Emerging Markets that outperformed, not only the Asian region but also Latin America. The performance of US and Japanese equities over the past month was partly offset by the negative currency evolution of both countries.

Equity Markets	December	3 months	Since 31/12	12 months
MSCI EMU NR	1.2%	5.1%	25.4%	25.4%
MSCI EUROPE NR	2.1%	5.7%	26.0%	26.0%
MSCI USA NR	1.1%	5.8%	33.3%	33.3%
MSCI JAPAN NR	0.3%	4.5%	21.8%	21.8%
MSCI EM. MARKETS NR	5.6%	8.6%	20.6%	20.6%
MSCI AC WORLD NR	1.7%	5.8%	28.9%	28.9%

(Performances in EUR dd. 31/12/2019) (Source : Bloomberg)

Bond markets

Bond markets also had a strong performance, despite the already low interest rate level at the beginning of the year, recording a performance few had expected at the start of 2019. Bond yields in the US and the euro zone have left the lows of early September behind. The recessionary risk that some indicators predicted during the summer months seems to have vanished into the background, as leading economic indicators are bottoming out. In December, the upward trend in interest rates continued, with only the 10-year bonds of Germany and the Netherlands still trading with a negative yield among the core euro countries. The spreads of the peripheral countries were also somewhat narrower in December, further expanding the profit over the whole of 2019. Corporate bond spreads in euros (investment grade and high yield) closed 2019 at the lowest level of the year, but remain well above the lows reached at the beginning of 2018 and during previous economic cycles. Spreads were also significantly lower in December. An improving macroeconomic environment and the ECB's bond purchase programme, which was relaunched in November, supported the market.

Government Bond Yield 10 y	Current	December	3 months	Since 31/12
Belgium	0.09	0.15	0.34	-0.69
France	0.12	0.17	0.39	-0.59
Germany	-0.19	0.18	0.39	-0.43
Italy	1.41	0.18	0.59	-1.33
Greece	1.47	0.02	0.12	-2.93
Spain	0.47	0.05	0.32	-0.95
United States	1.92	0.14	0.25	-0.77
Japan	-0.01	0.06	0.20	-0.01

(Evolution until 31/12/2019) (Source : Bloomberg)

Central banks and monetary policy

In 2019, the Federal Reserve cut interest rates 3 times (in July, September and October), each time by 0.25%. As expected, the US central bank left the interest rate unchanged in December and indicated that significant changes in the growth or inflation outlook will be needed to adjust interest rates either downwards or upwards. The Fed itself expects a stable interest rate throughout all of 2020. In 2019, the European Central Bank loosened its monetary policy in September by lowering the deposit rate from -0.4% to -0.5% and re-launching the bond purchase programme. At her first press conference, the new President Lagarde said that the central bank would launch a strategic review of its monetary policy in 2020 and she also reiterated that the inflation forecast remains below target. The Swedish Central Bank raised its policy rate by 25 basis points to 0% in December, after five years of negative interest rates. The bond purchase programme (SEK 45 billion) continues until December 2020. At the beginning of December, the Australian central bank expressed its relative caution about further cuts in interest rates, but weak economic figures later in the month reopened the door to a lower rate in the first months of 2020.

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 31/12/2019) (Source : Bloomberg)

Currencies

The British pound was once again very volatile in December. Following the clear election victory of Prime Minister Boris Johnson’s Conservative Party, the exchange rate rose to its highest level against the euro since the 2016 Brexit referendum. But part of that gain was lost when the UK Parliament approved the Withdrawal Agreement Bill which - unlike previous versions - ruled out the possibility of extending the transition period until after the end of 2020. That reminded markets that a chaotic Brexit is still possible. Despite all the volatility, the GBP closed 5% higher against the euro in 2019. The “safe haven” currencies, the dollar and the yen, weakened somewhat in December due to the increasing risk appetite among investors, but they remain positive for the whole of 2019. The New Zealand dollar strengthened further in the past month (+2.9% against the euro), after the unexpected rate pause in November. Despite the US President’s commotion during the year about the alleged manipulation of the currency, the Chinese renminbi closed only very slightly lower (-1.2%) against the USD.

Currencies	Current	December	3 months	Since 31/12
USD	1.123	-1.9%	-3.0%	1.9%
GBP	0.847	0.6%	4.6%	5.8%
JPY	121.96	-1.2%	-3.4%	2.9%
CHF	1.085	1.4%	0.2%	3.6%

(Evolution versus EUR until 31/12/2019) (Source : Bloomberg)

Commodities

The oil price almost reached the level of USD 70 per barrel in December and closed the year with a gain of 22.7%. However, this result came after the sharp drop in the price in the last quarter of 2018. At the beginning of December, OPEC+ did after all announce an additional production cut of 500,000 barrels per day. Saudi Arabia in particular pushed for this, while Russia is more inclined to defend its market share. Industrial commodities also rose in december, with copper prices particularly striking (+5.3% in USD), supported by better economic indicators and the reduction in trade tensions between the US and China. Industrial metals remained fairly stable throughout the year. Despite the somewhat higher bond yields, the gold price rose in December and closed the year above USD 1,500 per ounce. Gold benefited from the Fed's message that the bar is set high for raising its policy rates again.

Commodities	Current	December	3 months	Since 31/12
Commodities (GSCI)	436.22	6.6%	8.1%	16.5%
Oil (Brent)	66.00	5.7%	8.6%	22.7%
Gold	1522.83	3.4%	3.4%	18.9%

(Evolution in USD until 31/12/2019) (Source : Bloomberg)