

'Profession of the year: rat-catcher'

"If you continue to save too much money, you will have rats visiting you. However, the purchasing power must be protected. In 2020, keep the rats away, they're more dangerous than bears..."

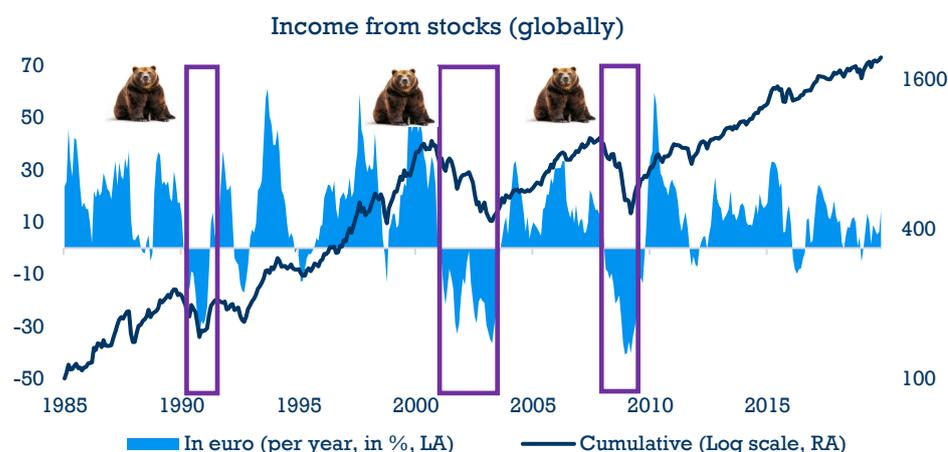
Please accept our apologies for the confusing La Fontaine-style title. Over the past few months, we studied imagery commonly used in the financial markets and discovered that the animal kingdom is very popular in financial literature for identifying market scenarios and the behaviour of market participants.

This immediately raises the question which animals we'll see roaming the markets in 2020. After a long stock market rally, which started in 2009 and so far only fell prey to a number of 'corrections', the question arises whether the bears in the stock market will slowly start repaying the bulls. In all honesty, we don't think so. In our experience, bears only appear on the scene when the economy is in recession.



A bumpy yet feasible road

We admit we've been balancing on the brink of recession in recent months and with Brexit and trade wars hanging over our heads like the sword of Damocles, at times, it seemed as though we were pushed over the edge. But brighter times are ahead. Consumers are holding their own, central bankers have provided some stimulus and we've seen the first signs of restored confidence here and there. An apparent armistice on the US-China trade front and the subsiding fear of a hard Brexit also play a role, of course.



Naturally, it's not all roses; Operating profit has been trading water for some time now and the forecasts for 2020 may need to be adjusted further downwards. A growth of 10-12% (as the analysts now expect) may be a bit high, but (if oil prices don't fall again) 5-6% profit expansion should be possible.

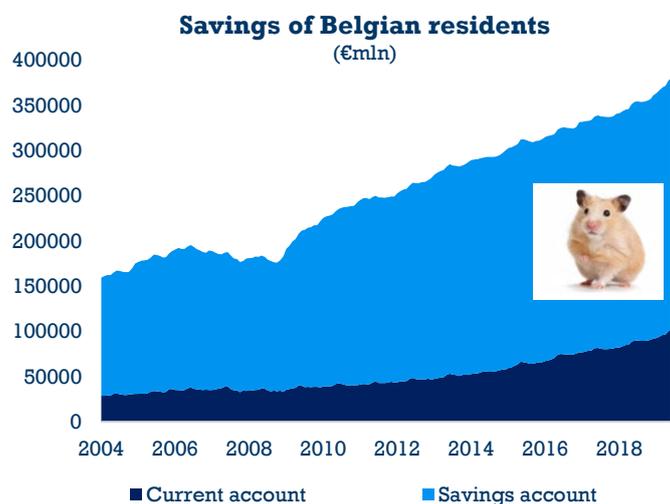
If prices go up by the same amount and we assume a normal dividend yield, 2020 will be another good year for the stock market.

However, there might be a few bumps in the road.

Hoarding does not pay off

But it remains worthwhile to continue participating in the stock market. After all, the alternatives are far from attractive. Anyone who stays on the sidelines and continues to hoard money in their savings account might

avoid the risk of market fluctuations, but is by no means compensated. If 2019 has taught us anything, it's that the European Central Bank wants to avoid the risk of being accused of not having done everything in its power to pursue its inflation target. New measures were introduced just nine months after the end of its quantitative easing programme. Deposit rates continued to fall below zero and a new purchase programme was launched. The market was informed that both measures will remain in place for as long as necessary. Anyone counting on a higher return on savings accounts may find themselves still waiting for Godot.



Inflation is not dead (the savings account is)

In the meantime, although inflation is falling short of the ECB's target, it is still estimated at 1.4% in Belgium for 2020. If we want to maintain our standard of living, our savings need to at least keep pace with inflation. And, right now, we're not succeeding! This is where the rat enters the scene. The rat nibbles tenaciously at the purchasing power. Day after day, week after week, and year after year.

But, alas, it is not a fable but the bitter truth that, at the current interest rate, the popular savings account is causing loss of purchasing power. While many people prefer a low but guaranteed return on their savings to a higher but uncertain return on investments, they don't realise that they are, in fact, in decline. If we have 100 euros one day, we can

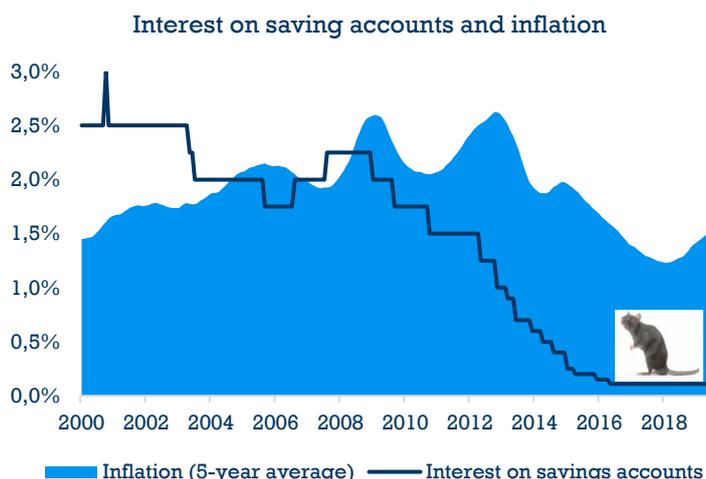
purchase less the next day, even less next year and far less after a number of years.

The same applies to secure government bonds. No one is counting on a sharp price drop due to a rise in interest rates in the euro area any more. The fact is, however, that the rise in interest rates is no longer the only reason to tread carefully with bonds, as the majority of government bonds in the core countries of the monetary union now have negative bond yields. Even people with the luxury of holding on to the bond until maturity will lose out. Corporate bonds offer the only opportunity for a gain.

The rat is more dangerous than the bear

'There is no alternative' is never a good reason to invest heavily in a financial asset. A portfolio must be balanced; in other words, adapted to the shocks the investor thinks they are able to absorb. Even if they're not immediately profitable, a lump of bonds is still necessary to keep the portfolio in balance. But one thing is clear: the return will have to come from shares.

In short, if you're too afraid of the bear and continue to hoard, you'll be paid a visit by the rat. Assets need to be put to work more than ever in order to protect and build purchasing power. And that is the true reason to invest. Keep the rat away because, in the long run, it will be far more dangerous than the bear.



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