A bizarre stock market year 2020

The stock market year 2020 ended how it opened, with a friendly mood. However, the period between its beginning and end truly had it all. A viral epidemic that originated in China quickly spread into a pandemic and caused an economic slump including a stock market crash. The failed election of Donald Trump is probably based on the political consequences of a bad handling of COVID-19. The same may be true of the last-minute Brexit trade deal. At least some reminder that Britain's participation in the European Union was a mesalliance from the beginning.

But who would have thought that quite a few stock exchanges would be on a record-breaking run in such a crisis year? In particular, the major countries recorded price gains in 2020. China, Japan, and the USA even posted strong gains. The technology-heavy Nasdaq Index took the cake, rising by no less than 43%. China's CSI 300 Index followed with a gain of over 27%. The next index is Japan's Nikkei, which gained a good 16%. Certainly, the antiquated weighting formula of the Nikkei overstates the positive development. The more modern TOPIX index rose by just under 5%. The situation was less encouraging in Hong Kong and Singapore, where the leading stock indices posted losses. The European stock indices also had a weaker performance, with the German DAX index standing out positively. The U.K., France, Spain, and Italy reported significant price declines in some cases. Overall, the stock market year was extremely heterogeneous. Among the sectors, technology stocks stood out positively, while energy stocks, airlines, and tourism stocks were among the losers.

The energy exchanges went almost wild, when even negative prices could be observed on the futures market for crude oil during a short period in March. On balance, the North Sea Brent crude lost a good fifth of its value over the year. Meanwhile, the picture was quite different for natural gas, whose share as a primary energy source has tended to grow for years. With strong fluctuations, natural gas increased in value by up to 80%, particularly in Europe. Consumers will feel the effects of this in winter. Overall, however, the commodity markets were surprisingly robust, which in principle is due to the rapid recovery of the Chinese economy. Metals in particular were in for a positive performance.

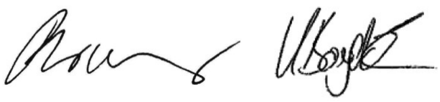
Some commentators refer to a sort of emancipation of stock market prices from the macroeconomic development path. However, considering the ultra-expansive monetary policy of the central banks, the positive price trends for tangible assets are quite understandable, even though they may appear exaggerated in individual cases. This trend can also be seen in the price development for residential real estate. In this context, experts speak of asset inflation. For the sake of clarity, however, it should be mentioned that government bonds once again showed a positive performance as well. This market has been in a perma-bull market for more than three decades. Default risks have now disappeared from the trading vocabulary of government bonds. There is no doubt that this latter, ahistorical development has its origins in the great financial crisis of 2007 onwards.

At the same time, it seems that the stock markets - as is their nature – cannot act without exaggerations on the upside as well as on the downside. The extraordinary share price development of the electric car manufacturer Tesla may be the face of such an exaggeration. The Californian company now has a higher stock market value than all other major car manufacturers combined. Further examples from the over-popular technology and hydrogen sectors could be added.

Regardless of the annual, monthly, and daily fluctuations, it had been clear to the founders of LOYS AG that long-term wealth accumulation for a vast majority of people is only possible through participation in the stock market. That is why we have positioned ourselves - despite all volatility - as a pure equity house. LOYS Premium Deutschland is now being launched at the start of the year. The fund management expects a boost in 2021, particularly for the German economy as an exporting nation, from a normalized world trade.

Sincerely yours,

Fund managers and co-investors



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