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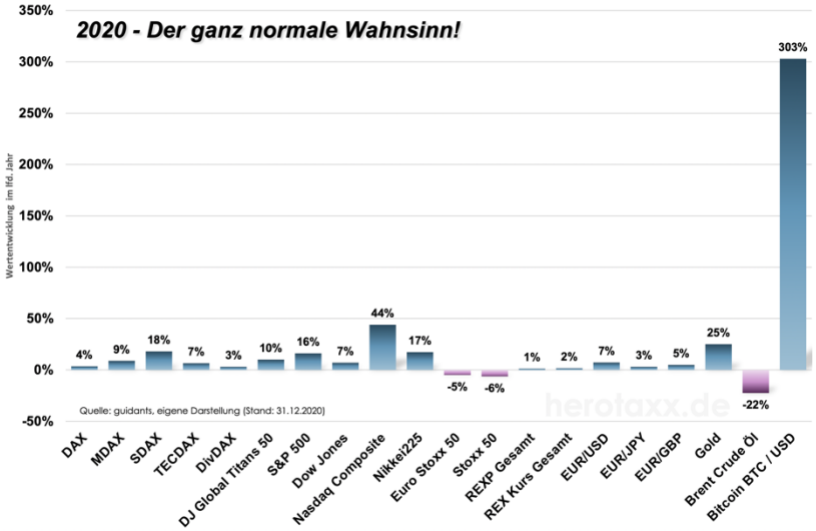
Capital Market Report Q4 2020

- 🏁 Great expectations for 2021 -

Goodbye 2020! One of the most spectacular (stock market) years since the financial market crisis of 2008 is behind us. Spectacular? Well, if you simply compare the year-end results with the beginning of the year, you will see that this must have been quite a normal year. As we all know, it was anything but easy. Corona also kept the stock market world on its toes.

And yet, in the end, many stock markets were able to end the year on a positive note. As in previous years, the US indices were among the biggest winners. This also applies to the Asian markets. Europe, on the other hand, brought up the rear in this comparison. Greece, Austria, Italy, Spain, France and the UK were among the big losers on the stock market. The pandemic has led to a strong rethink on the demand side. Digital services experienced a corresponding boost in 2020. This was particularly noticeable in the technology indices. All of them were among the big Corona beneficiaries. And then there was bitcoin, which exited the year up over 300%. The cryptocurrency took advantage of the crisis scenario and leaves the nursery to grow up so slowly in 2020. As it seems, more and more institutional investors also discovered the asset class for themselves. However, as with almost all currencies, bitcoin remains a highly speculative instrument.

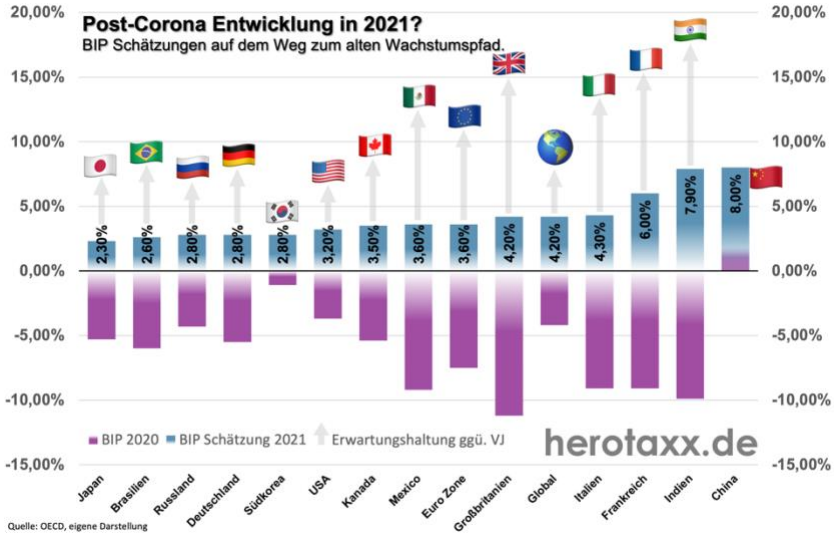


2020 was a special stock market year, joining previous stock market crises such as the dot-com bubble in 2000 and the financial market crisis in 2008. Something for statistics fans: while the dot-com bubble generated a peak loss of -73% (on the DAX®), it took around 7.3 years for the loss to be recovered. The financial market crisis resulted in a maximum loss of -56%. This was recovered after a good 5.8 years. The Corona crisis, on the other hand, caused the DAX® to fall by around 40% and to make up for everything after a good 10 months(!). The comparison makes the extreme conditions for 2020 clear and also shows the difficulties investors were confronted with. This is also the reason why it is becoming increasingly difficult for both fundamental and technical analysts to make realistic and reliable forecasts. The market has long since left its comfort zone with its extreme movements in 2020. Many valuation models no longer work or are reaching their limits. So here, too, there is a rethink in the direction of "new normality". The VDAX-New (i.e. the fluctuation range of the German stock market) is not yet able to return to its pre-crisis level and will remain a good 10 basis points higher until the turn of the year. This is an indication of the increased nervousness on the market.

2020 also became the year of the central banks. Anyone wishing to gain a rudimentary understanding of the market had to focus on the interventions and money market policy of the Fed and the ECB last year. The extremely loose monetary policy pumped an immense amount of liquidity into the markets. Central bank balance sheets have multiplied accordingly. At the same time, of course, the countries' debt is growing. How the numerous Corona bailouts will ever be repaid is still completely unclear. One thing is certain: The Fed has adjusted its inflation target and

promised the markets a corresponding supply of liquidity until 2023. So for the time being, there should be calm on the "interest rate increase" side. It is obvious that these measures will lead to a widening gap between the real economy and the stock market. Figuratively speaking, the stock market can probably best be explained like this at the moment: We are in Las Vegas in the casino. The doors and windows are locked and the central banks are putting almost infinite chips on the table. Please "play", but do not look outside. This kind of "game" will probably be with us for quite a while.

On the outlook: Expectations for 2021 are high. Almost everyone wants to return to the "old" normality before the pandemic. The extent to which this succeeds depends, of course, on the distribution and effectiveness of the newly developed vaccines. Digitization and continuation of new communication channels or distribution and logistics will certainly also play an essential role in a post-Corona scenario. Therefore, significant parts from the Growth,or Growth sector will obviously also be a profiteer in 2021. Nevertheless, there are sectors that have a high catch-up potential. The tourism and aviation sectors in particular should benefit sooner or later from the lifting of the lockdown measures.



But expectations are also high for the economy as a whole. In its GDP country estimates, the OECD is returning to the old growth path before Corona. China in particular, which turned out to be a Corona winner with positive GDP in 2020, is also one of the main global GDP drivers for 2021. With Joe Biden as the new U.S. president, it will become clear how quickly and how far relations with both China and Europe will improve. However, it will quickly become clear how strengthened the Asians have emerged from the crisis. In any case, the new U.S. administration will have to show what it can do this year. Certainly not an easy task in a country that is giving its population more financial support than ever before. The social divide is correspondingly high. A fact that we also see in Europe.

Against this background, the Bundestag elections on September 26, 2021 are also eagerly awaited. For the DAX® price index, the course in 2020 still means potential upside. While its international peers such as the Dow Jones and the like, which also exclude dividends, have already reached new highs, the DAXK® still has room for improvement. After an overriding sideways phase since 2015, this would also be a long overdue signal. A breach of the old high at around 6,500 would even strengthen the further buy signal. The same applies for 2021: as long as the central bank band is still playing, investors will not be able to avoid real assets, especially equities.

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