SPECTRUM

2021 MARKET TRENDS

You don't need a crystal ball to name at least two big investment themes that will impact the markets this year: Brexit and Covid-19. Many people would prefer not to hear about either anymore, but the next phase that is beginning now – the medium and long-term consequences of Brexit and Covid-19 – will be very exciting from an economic point of view and should offer some investment opportunities. However, there are other themes that will be worth keeping in mind at the same time.

Covid-19

Thanks to global vaccination programmes, it looks like the pandemic will be overcome later this year. This will lead to the full opening of the local and global economy. Many people are longing to travel again, to visit restaurants and other leisure facilities or to attend cultural or sport events. Therefore, the relevant industries are likely to benefit massively. You can call this a return to normalcy.

However, just as interesting are the areas in which there may not be a return to old habits. E-commerce, for example – online trading has been booming since the outbreak of the disease. In the future, there should also be significantly more people who work at home at least temporarily instead of going into the office – the crisis has finally shown that this is possible. The same may apply to some areas of education. In short, Covid-19 has once and for all shown that digitisation needs to be pushed forward significantly. We should see considerably larger investments than before in IT and digital infrastructure.

Brexit

Since the referendum in June 2016, there has been a lively debate about how Brexit would affect the lives of both the British and continental Europeans, about the international movement of goods, about certain industries. However, the various scenarios inevitably remained theoretical until the transition phase of leaving the EU ended at the turn of the year: Great Britain is now no longer part of the EU internal market and the customs union. And what we are now experiencing will probably keep the markets busy for many months, if not years: Due to the new trade barriers, the pan-European supply chains are at risk, there are bottlenecks, although the Corona-related lockdown in Great Britain is currently defusing the situation. In addition, a number of British companies had to stop exporting their goods to the EU because their prices are no longer competitive due to the tariff surcharges. As in 2020, numerous British companies will probably relocate their headquarters to an EU country or set up a branch in the single market. Not least among them financial firms.

The economic damage to Great Britain is likely to be considerable, not to mention the jobs at risk. The British are now also feeling the effects of Brexit in their wallets: Goods imported from the EU are more expensive due to customs duties, and food prices are rising. It remains to be seen how big the sales shortfalls for EU companies will ultimately be.

Crypto currencies

For several months now, crypto currencies have been on everyone's lips – and will remain so. Of course, that's because Bitcoin and numerous Altcoins are currently reaching new heights against fiat currencies. However, the decisive factor is that the coins – depending on their function – are actually used or applied and that virtual money is increasingly establishing itself as a new asset class. The financial sector in particular had long reservations. The fact is that both private and institutional investors around the world are investing enormous sums of money in cryptos because payment transactions that are independent of banks, governments and authorities appear attractive and could have a future. If you want to invest in Bitcoin and Co. you should, of course, first familiarise yourself with the associated risks.

Inflation

There is currently a lot of speculation in the markets about a potential period of significant inflation. Indeed, since governments around the world have launched economic stimulus programmes and central banks have pumped cheap money into the markets to prop up the suffering economy during the pandemic, many expect inflation to come. However, due to numerous compensatory or diverting effects such as a rising savings rate, rising asset prices or the sharp rise in demand for digital offers during the pandemic, it remains to be seen. As a result, it is by no means certain that the central banks will raise interest rates significantly this year.

Stock markets

The fact that the stock markets recovered so quickly after their crash in February/March 2020 and that this recovery continues to this day – despite occasional setbacks – has certainly a lot to do with the glut of money and the aid programmes. Above all, investors seem to be looking far ahead into the post-pandemic period, for which many are expecting a veritable economic boom. This hope might last for a long time, especially since there currently seems to be little alternative to the potential gains on the stock markets.

A certain degree of nervousness cannot be denied, and short-term volatility must be expected at any time. A well-considered selection of stocks from sectors that typically outperform the market in volatile times can help protect an investor's portfolio. In addition to spreading the risks over different low-correlated asset classes, less risk-averse investors can use volatile phases for short-term trading and take short positions, provided they have the appropriate experience.

Politics

Internationally, the further development of the tense relationship between the USA and China is of crucial importance. Joe Biden, the new US President, moved into the White House in January, and the world is now looking forward to his dealings with Asia's strongest economic power. The EU's reactions to Biden's election in November last year were mostly positive as the former Vice President stands for close political and economic cooperation with Europe.

Bottom Line

At this stage of a market outlook, it would usually be appropriate to provide a GDP forecast or a view to similar metrics. The reason why we don't give this here is not because it is harder to predict this time around (which it actually is) – we just think that, from market perspective, the explanatory power is limited. A global GDP growth of up to six per cent, as forecast by some economists, is impressive even against the background of where we come from. Then again, the extent to which the economic stimulus that governments and institutions provided and will continue to provide will translate into effective demand, can't be predicted seriously. It's just a fact that this support will remain in place as long as it takes. Thus, a scenario of sustained inflation is not necessarily inevitable; in contrast, the shortage of interest-bearing assets, seems to persist for some time.

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