



2020, a positive year after all?



Like every year at this time, many people are emotionally in a mix of Christmas stress, positive and negative reflections, and a bundle of hopes and expectations for the year ahead, including some investors.

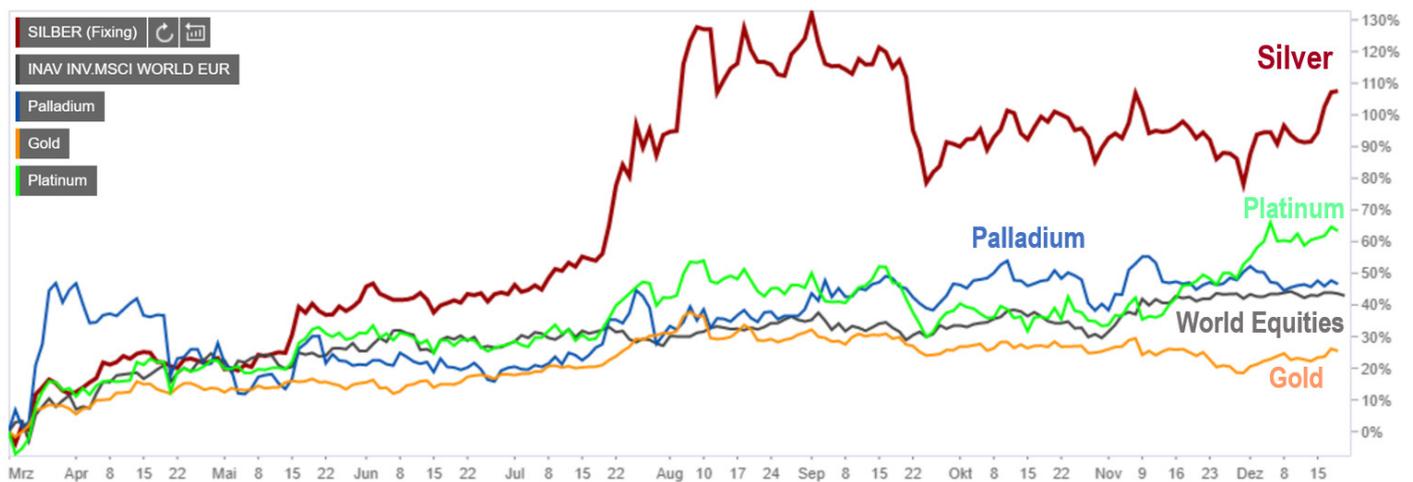
An apparent mutation of the Sars-Cov-2 virus, which first emerged in the U.K. last week, triggered the recent rise in market volatility. Does the stock market year, which many analysts described as narrowly positive, now seem to be tipping over again after all?



About a year ago, we wrote that we expected a positive stock market year for the overall market and that the historically long U.S. bull market (which had started in March 2009), like all bull markets in the past, would only come to an end with an external shock. In sum, two correct statements, but the fact that we will see both within a single year was not included in our assessment. The global Covid-19 pandemic was a massive exogenous shock to our economic system and capital markets. In the spring, equity markets posted record losses, the likes of which we had not seen since the 2008/2009 financial crisis, followed by massive price hikes a few weeks later. All in all, one of the shortest bear markets in stock market history and a positive stock market year for the world equity index. One asset class that has received little attention due to these historical developments in the stock markets is precious metals. The strong gold price increases have still received attention here and there, but:

Not all that glitters is gold

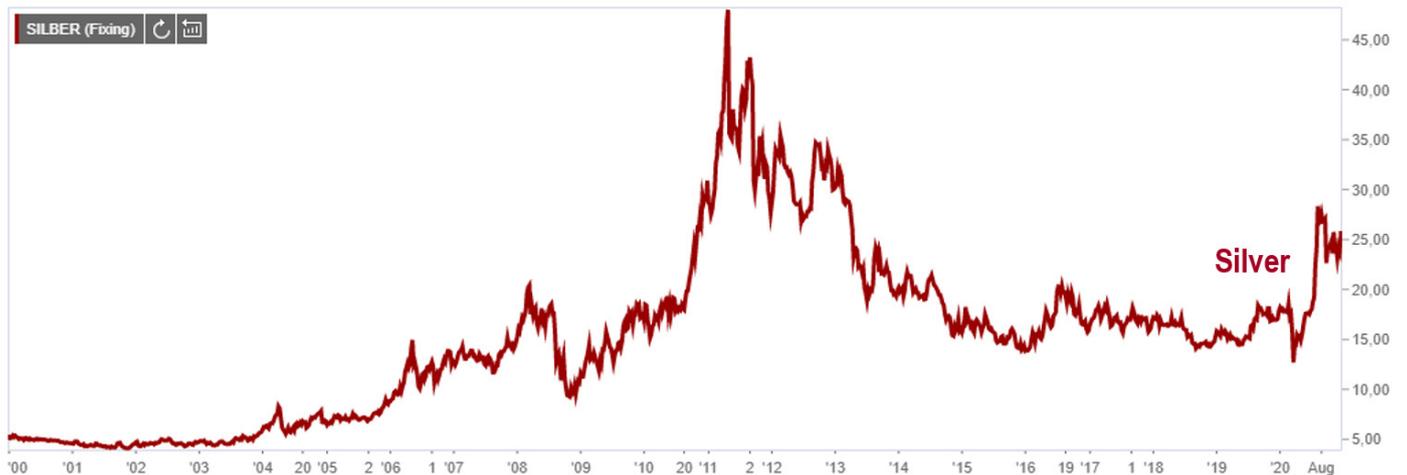
Silver has increased in value by more than 107% in three full quarters since March 18, 2020, while gold has had to settle for around 25% (less than a quarter!). Looking more closely, platinum (+63%) and palladium (+44%) have also outperformed the supposedly crisis-proof precious metal.



Development of precious metals and world equities, since 03/18/2020, source: Börse-Live, data as of 12/18/2020

A look into the past shows parallels to the years after 2008/2009. When silver (the „poor man’s gold“) reached a 31-year high of just about \$50 per ounce in 2011 after 2 years of almost uninterrupted rises, expectations of increasing inflation were high. What had happened? Like today, the money supply was drastically increased in the wake of the financial crisis.

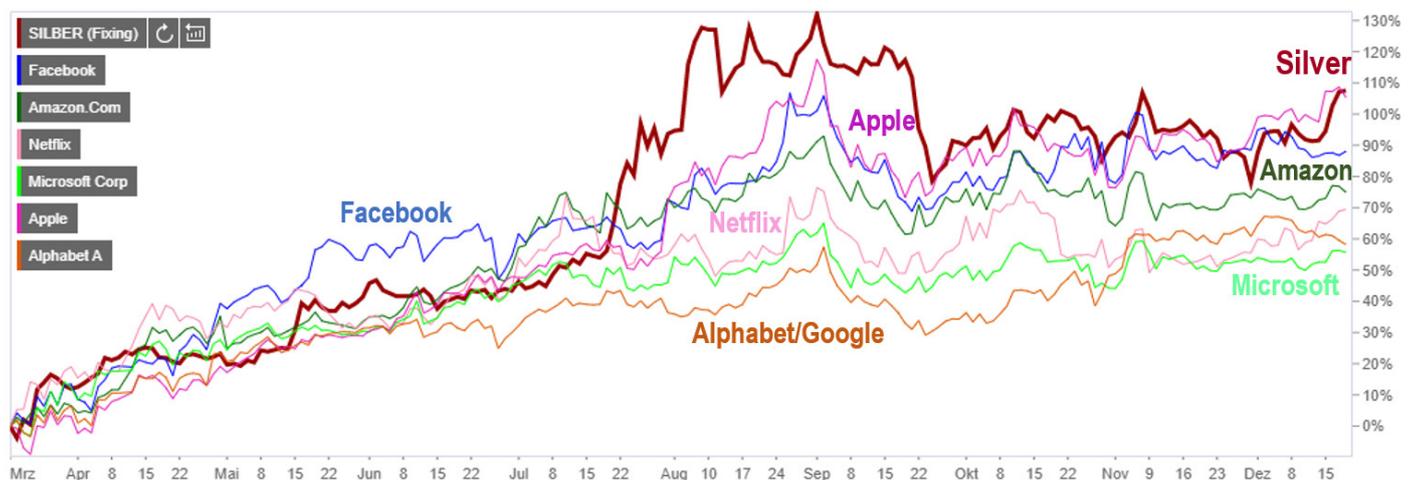
So-called quantitative easing, i.e. an easing of monetary policy through enormous purchases of government and bank bonds, has been pursued ever more vigorously since. According to the textbook, more money in the economic cycle leads to higher inflation. After 2011, inflation within the EU has fallen from 3.1% (2011) to as low as 0.1% (2015) and silver has seen price declines.



*Silver price development since the 2000s,
source: Börse-Live, data as of 18.12.2020*

Analysts' estimates see the eurozone inflation rate for 2021 rising from the current -0.25% (i.e. prices falling very slightly overall) to between 1% and 2%.

Whether silver will continue to outperform not only gold but also this year's high flyers like Facebook, Amazon, Netflix Microsoft, Apple and Google (also known as FANMAG stocks) in the coming year remains unclear. However, a closer look might be worthwhile.



*Development of FANMAG shares compared to silver, since 03/18/2020,
source: Börse-Live, data as of 12/18/2020*

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