

## EUROPEAN ECONOMIC BACK-DROP & MACRO SITUATION

In January 2020 a coronavirus started to spread around the globe, notably large parts of Europe. Global lockdowns in response to the threat of Covid caused an instantaneous and significant negative economic shock. Described by one economist as "stepping off a cliff". Recognising the peril, Central Banks and Governments responded faster than ever before.

In response to the Covid crisis, the European Central Bank (ECB) announced a Pandemic Emergency Purchase programme (PEPP). Initially announced mid-March at €750 billion, increased by a further €600 billion in June, with an additional €500 billion in December, it now totals €1,850 billion and will continue until at least the end of 2023. This initiative aimed to lower borrowing costs and increase lending in the Euro Area, primarily by purchasing bonds directly from banks.

With pre-crisis deposit rates already at -0.5%, there was limited room for rate cuts to support the real economy and thus the Central Bank looked for ways to increase the availability of credit at lower costs. The solution presented were loans, subject to certain criteria, enabling banks to access cheap funds at -1% or lower, for onwards lending.

In addition to the generous Central Bank support, Governments across Europe were quick to respond to the crisis, with unprecedented levels of support. Later in the year, their efforts were bolstered by the EU's recovery package, designed to rebuild after the pandemic and support investment into green and digital transitions.

## EUROPEAN FINANCIAL MARKETS

2020 will be remembered for its volatility as investors struggled to price the unknown impacts of a frighteningly dangerous and contagious virus. In the equity markets, stocks fell by over 35% in less than 5 weeks. At the same time, volatility in European Government bonds spiked and the yield on 10-year German bunds plummeted before partially recovering towards pre-crisis levels. As Central Bank purchases increased yields trended lower.

Ultimately, the Government and Central Bank's response served to reassure investors and volatility began to decline. EU equities began recovering in the second quarter, albeit the markets of some member states recovered quicker than others. Despite an EU market recovery of 50% from their March lows Euro-Zone equities still posted negative returns for 2020.

Reflecting expectations for sub trend growth across the wider economy core Government bond yields remained in negative territory.

In the foreign exchange markets, the Euro strengthened against the US dollar with many analysts expecting further recovery based on fair value assumptions.

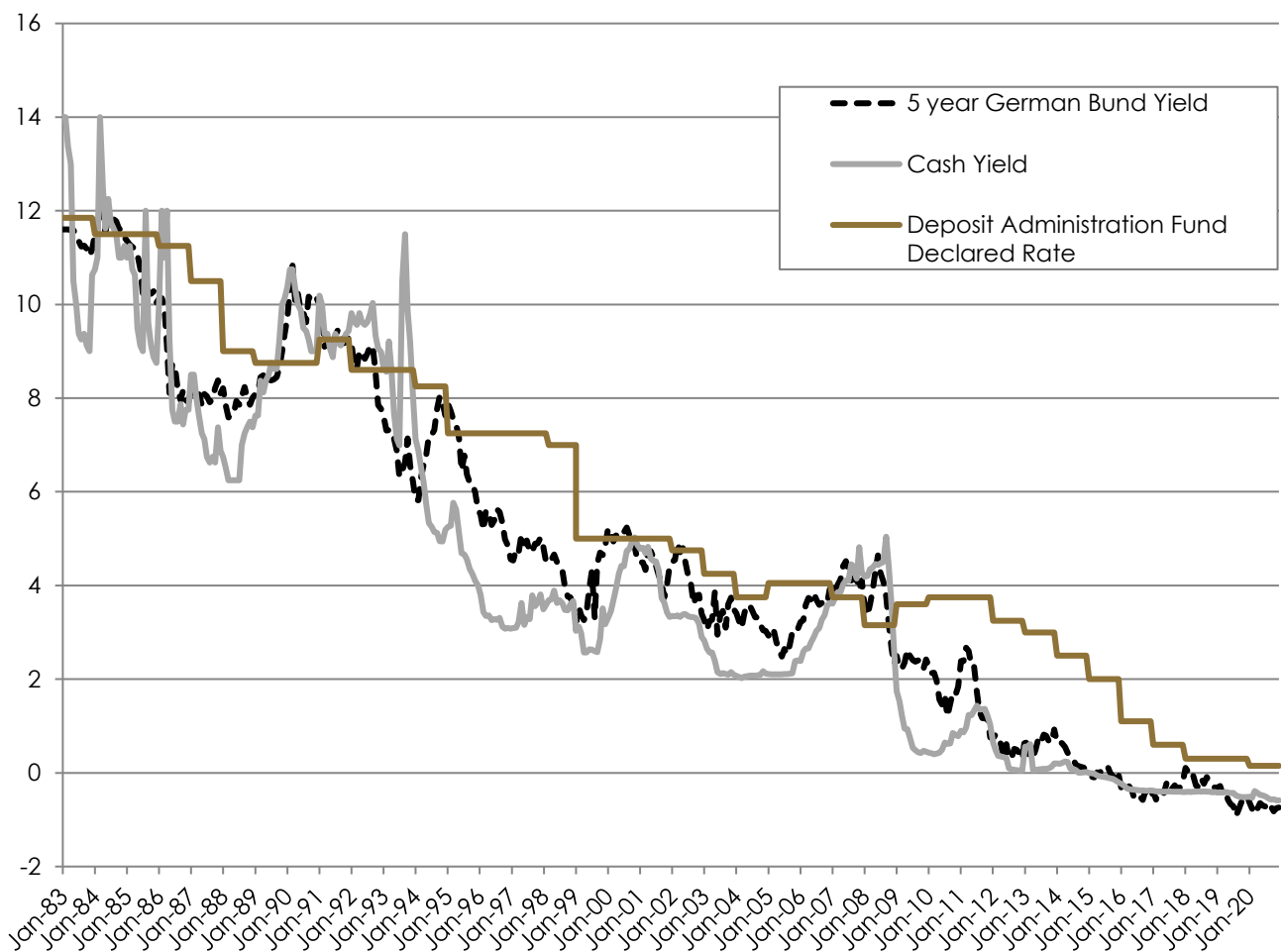
Looking forward, risk-averse savers face increased challenges due to negative yields on cash and Government bonds, coupled with a reduced incremental yield on corporate bonds, suppressing expectations of future returns.

On a forward-looking basis, amid expectations for higher levels of inflation, high quality bonds are likely to generate negative real returns (inflation adjusted) over the next decade.

## THE EURO DEPOSIT ADMINISTRATION FUND

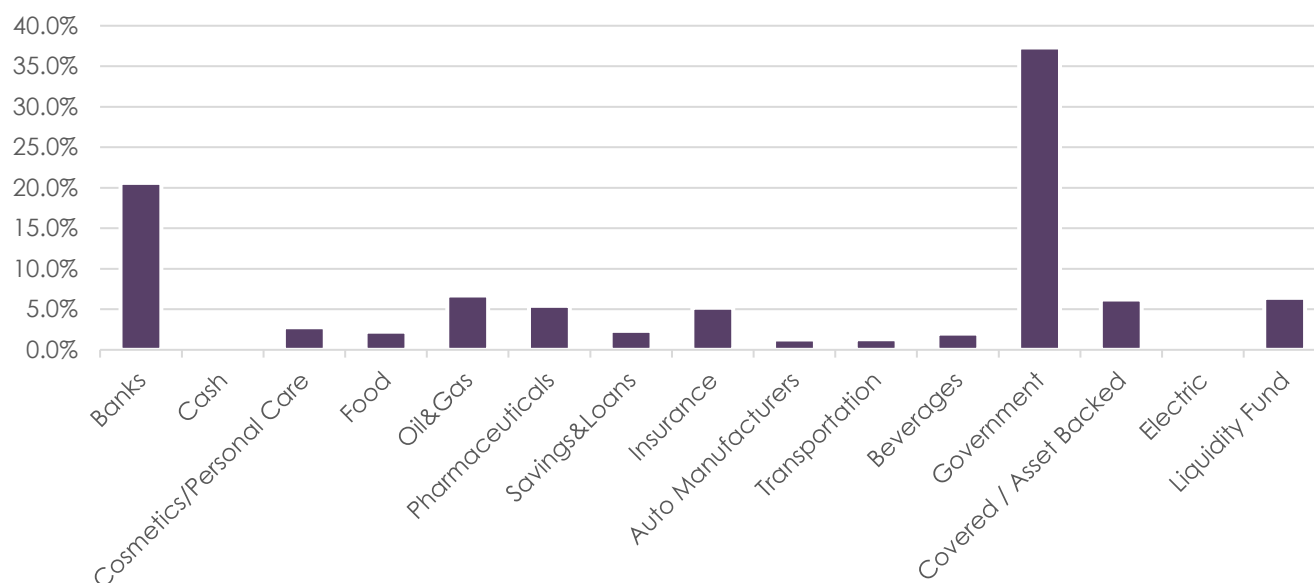
The following chart details the fund's 2020 declared rate of 0.15%, along with negative yielding cash and 5 year German Bunds.

### PERFORMANCE COMPARISON CHART

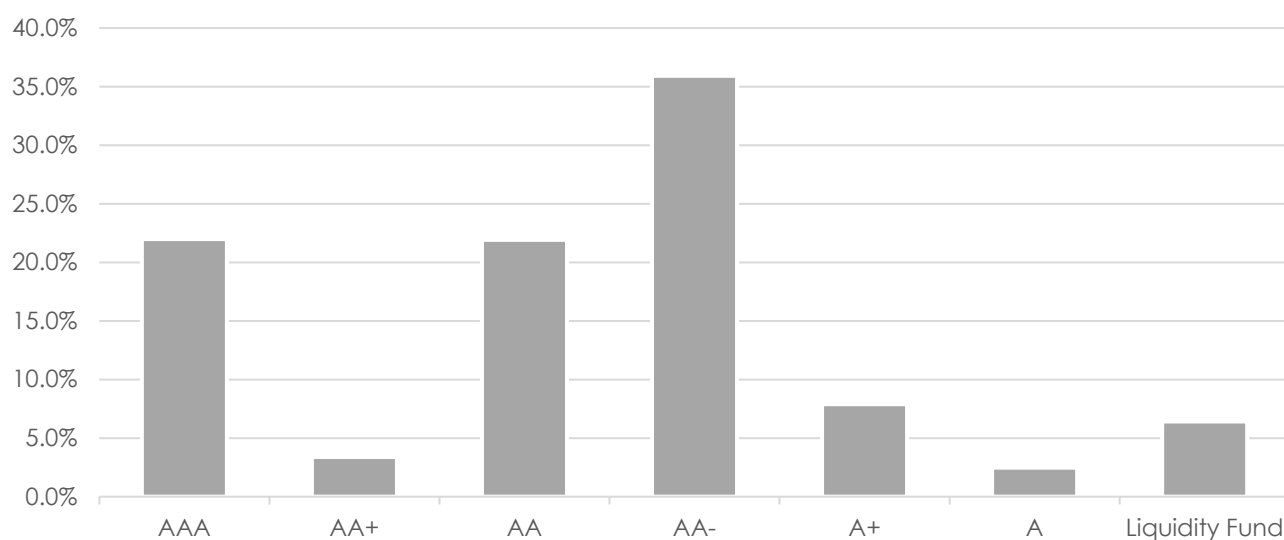


At the year end the portfolio was 34% allocated to government and government related bonds with the balance in covered and corporate bonds. The portfolio's sensitivity to changes in interest rates, measured using modified duration, was at 3.1 years having increased from 3 years at the start of 2019.

## ASSET DISTRIBUTION BY SECTOR



## ASSET DISTRIBUTION BY CREDIT RATING



## A WORLD *of* DIFFERENCE

**Registered Head Office address:** Utmost Worldwide Limited, Utmost House, Hirzel Street, St Peter Port, Guernsey, Channel Islands GY1 4PA.

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T +44 (0) 1481 715 400

F +44 (0) 1481 715 390

E [EBInvestCustomerService@utmostworldwide.com](mailto:EBInvestCustomerService@utmostworldwide.com)

W [utmostinternational.com](http://utmostinternational.com)