

Better returns in February

By Anders Svennesen, CIO

The financial markets have improved since mid-February following the heavy price plunges witnessed at the beginning of the year. As a result, customer returns have improved as well since end-January.

In February, Danica Balance Mix medium risk profile yielded returns ranging from -0.1 to -0.7% for 5-30 years to retirement. Compared with other pension companies, Danica Balance Mix lies in the upper part. Thanks to the increased flexibility of Danica Balance Mix, we are able to quickly adjust our portfolios when confronted with events such as the equity market turmoil witnessed during 2016.

Starting in January 2016, Danica Balance Mix is offered to all new customers. Existing customers will be contacted during H1 2016 with a view to switching to Danica Balance Mix.

THE US NOT HEADING TOWARDS RECESSION

Improving US data and an active European Central Bank

US growth rates have caused concern of late. In our opinion, the US is not headed for recession. US consumers are currently benefiting from low unemployment, decent wage increases, a housing market in recovery and low oil prices. However, there are no indications that US growth rates will return to the upbeat levels seen in the past. Productivity gains and investments remain very subdued.

Markets are also finding support in the European Central Bank's interest rate cut last week to the lowest level ever and its concurrent massive bond purchases.

We therefore remain confident that 2016 will yield good returns, albeit below the 2015 level. We still favour European equities over US and Emerging Market papers.

CORPORATE BONDS OFFER ATTRACTIVE RETURNS

We have increased our exposure to corporate bonds

In a scenario characterised by muted economic growth, corporate bonds, particularly those issued by oil companies and banks, are an interesting investment option. Corporate bond yields have gone up as oil prices have gone down and financial volatility has gone up. Danica Balance added to its holdings of corporate bonds issued by oil companies and banks. Since then, yields have come down and any additional investments will have longer horizons.

The recent hefty market fluctuations have demonstrated the strength of Danica Pension's new investment strategy, which targets alternative investments offering a more attractive risk-reward profile than traditional listed equities and bonds. So far in 2016, Danica Pension has invested in Netcompany, the IT services supplier, and Glycom, the technology company manufacturing infant formula additives and selling to Nestlé, the international food group.