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Dear investor,

- Investors who correctly made bullish call on **equities** amid this year's strong rally say there is **no reason to pull out now**.
- **The flattening of the U.S. yield curve isn't a sign of economic troubles ahead**.
- Technology and Materials sectors are strongest beneficiaries of **resynchronization of global growth.**
- With the Federal Reserve raising interest rates and shrinking its $4.5 trillion balance sheet and the European Central Bank starting to trim its asset purchases, **muted 2018 sovereign and corporate bonds can be expected**.

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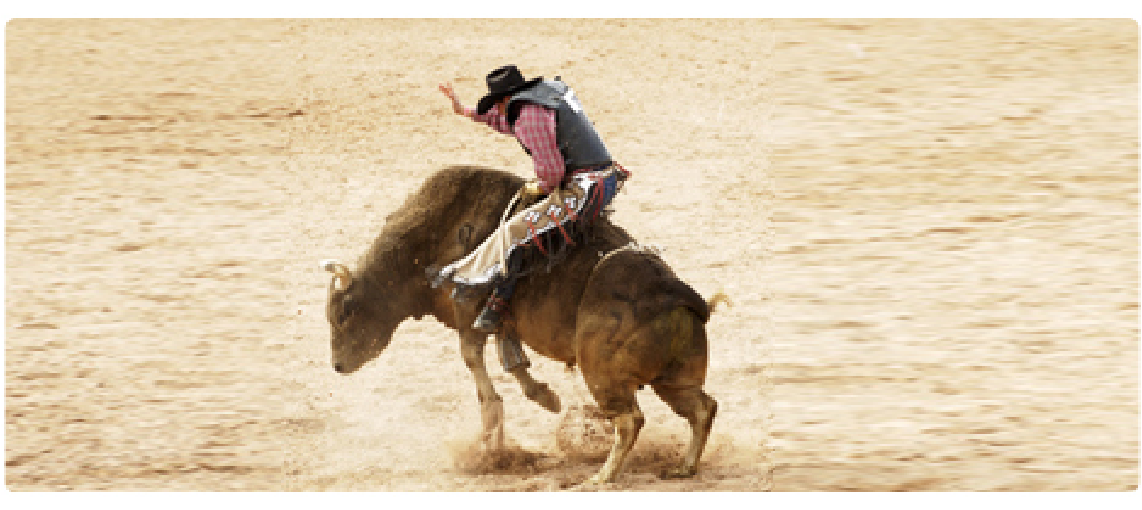
Thierry Masset, Chief Investment Officer ING Belgium

EQUITIES

Bull market's foundation is getting stronger



Although the cyclical upswing in the stock markets that began in March 2009 has probably entered its mature phase, equities are expected to be able to take advantage of negative real rates in the main economic regions and strong earnings growth next year, especially in Emerging Markets and in Japan.

Despite missile launches from North Korea, a deleveraging campaign in China, political wrangling in the White House, the U.K. and even Germany, and a slowdown in monetary stimulus, global equities are at a record. The MSCI All-Country World index is on track to finish 2017 on a rare gain of more than 20% (in USD, versus 8% in euro) for the year, boosted also by optimism over tax reform in the U.S. The centerpiece of the new legislation is a reduction in the corporate income tax rate to 21% from the current 35%. It is also the first time in its three-decade history that global stocks get through an entire calendar year without a monthly decline! Naturally, the debate is heating up over whether stocks are overvalued and due for a pullback or just reflect the underlying strength in the economy. Whatever side of the argument you take, it is hard to deny that the fundamentals are looking very good for the bulls, judging by the so-called hard data that tracks actual economic output. The Organization for Economic Cooperation and Development predicted the global economy would expand 3.7% in 2018, which would be its best performance in years. Read More

- **Not since before 1999 have growth rates across the northern and southern European states been as close as they are now**
- **Chinese companies are more able to service debt than ever before**
- **Japan's economy is still outrunning its potential growth rate**

BONDS

Are bond traders too cautious?

The narrowing of the difference between short- and longer-term Treasury yields is typically associated with a looming slowdown in the economy, which tends to curb inflation and longer-term bond yields. But since inflation expectations may be on the rise, such as measured by the performance of linkers, then traders on the sovereign and corporate bond markets may be underestimating the inflation risk.

If the economic outlook is so strong - the International Monetary Fund predicts consumer prices in advanced economies will climb 1.7% in 2018 (the most since 2012!) -, then how does one explain long-term bond yields stay low and the narrowing of the difference between short- and longer-term Treasury yields? Even though they rose in 2017, long-term bond yields remain relatively subdued, with 10-year Treasury yields struggling to push much above 2.40%. They are only 0.6% above 2-year yields. Recall that at the beginning of the year, the spread was 1.25% and the median estimate of economists and strategists surveyed by Bloomberg was for the 10-year yields to be closing in on 2.75% by now, and possibly even 3% as the Federal Reserve raised interest rates and began shrinking its balance sheet assets. Bond traders are naturally more cautious, and appear to be taking their cue from forecasts that fiscal stimulus, including U.S. tax cuts, will deliver only a modest boost to the economy in the next two years. But, at the same time, bonds that protect investors against faster inflation are doing well. The Bloomberg Barclays Inflation-Linked indices have gained this year 1.2% (in euro) at the world level and 1.9% at the European level, outperforming the 5% loss in the benchmark Bloomberg Barclays Global Sovereign Bonds index. The performance of so-called linkers is the sign that inflation expectations may be on the rise. Read More

- **The decline in asset purchases by the ECB will weigh on European government bonds next year**
- **Red hot valuations in the high yield corporate bonds market**

OTHER ASSET CLASSES

Metal prices to benefit as era of abundance draws to a close

Next year will probably mark the last spurt of significant production growth across a range of industrial commodities, before a period of constrained supply. Even after some hefty gains in the past two years, this outlook makes metals an attractive investment.

Industrial metals traded in London are heading for a 25% gain (in euro) during the last two year, bolstered by a global recovery and signs that a lack of spending on new mines is set to tighten the outlook for supply in coming years. Inventories of most metals in warehouses tracked by the London Metal Exchange have shrunk to the lowest since 2008, signaling a shortage. If we are in an environment where ex-China demand is doing well, where China is stabilizing and not declining, that could be very attractive for commodities prices in general. The efforts made by governments to clean up polluted air in cities and prospects for a more rapid development of their electric vehicle sector is also a complete game changer for some metals. Read More

- **OPEC's dilemma: How to keep oil prices high without stimulating further growth in U.S. shale oil production?**
- **Global shipping costs have jumped to the highest level since January 2014**

IN THE NEWS

A trade boom, rather than a trade war, has been the big theme of 2017

As 2017 draws to a close, the International Monetary Fund is projecting the volume of trade in goods and services will have climbed 4.2% over the year, up from 2.4% in 2016. That would be the first time trade has outpaced output growth since 2014!

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Warnings multiply that bitcoin is an asset bubble

Bitcoin's surge in 2017 has vaulted the value of the largest crypto currency above the market caps of some of the world's biggest companies. The total value of all the bitcoins in circulation climbed to more than $170 billion last month, as the digital currency continued its rise toward $16,500. This time in 2016, the crypto currency was worth about $12 billion, not much bigger than the average U.S. mid-cap company.

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Monster Emerging Market stock and currencies rally synchronization

While both Emerging Market stocks (+28% in local currencies) and currencies (+11%) are set for their best year since 2009, the gain in equities has been three times larger. That means Emerging Market stocks are more responsive to the global growth pickup than currencies, which are more tied to concerns of rising interest rates in the U.S.

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If you have any questions or wish to discuss this further, please contact your personal banker.