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- ESG strategies are starting to pay off
- Profit forecasts are cut like it is 2008

Dear investor,

- **Bulls and bears are still squaring off over whether the economy and earnings have peaked**, portending a halt to a nine-year surge that has added more than $46 trillion to the value of world equities.
- **From U.S.-China trade tensions to uncertainty over Federal Reserve monetary policy and Brexit, issues that were at the center of the fourth-quarter equity rout haven't gone away**. Meanwhile, bad news keep creeping in. The list of companies in cutting financial forecasts is growing, reinforcing fears that a slowdown in 2019 profits may be worse than analysts anticipated.
- With risk assets now more sensitive to macroeconomic factors and political uncertainty playing an increasing role, **volatility in market sentiment is here to stay and defensive assets should outperform.**

Thierry Masset, Chief Investment Officer ING Belgium

IN THE NEWS

U.S. stocks show effects of U.S.-China trade disputes

Shares of companies in the S&P 500 index that do the most business outside the U.S. have trailed the benchmark as a group since stocks peaked on September 2018. As the 90-day negotiations (until March 1) between U.S. and Chinese officials continue, there are seven issues that will be key to making headway.

ESG strategies are starting to pay off

For investors trying to take into account environmental, social and governance concerns (ESG), ESG criteria are finally starting to pay off. In the Eurozone, Amundi calculates that investors buying shares of the companies that ranked in the top 20% for ESG and selling the bottom 20% would have suffered an annualized loss of 1.2% between 2010 and 2013. Following the same strategy from 2014 to 2017, though, generated a positive annualized return of 6.6%.

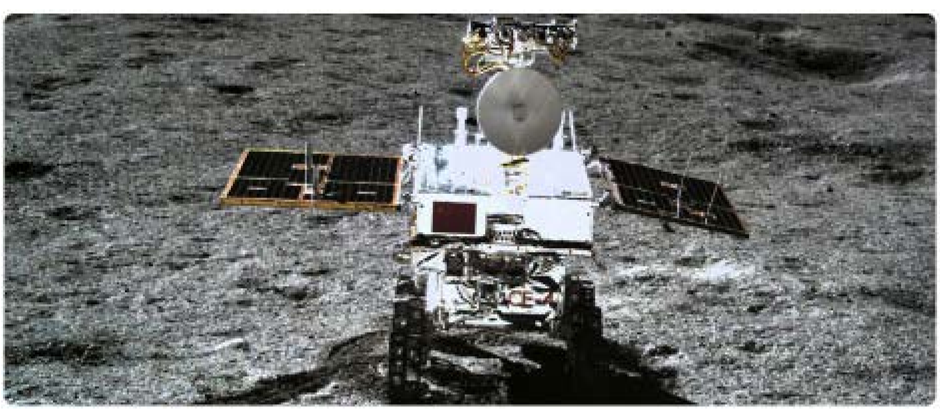
Profit forecasts are cut like it is 2008

Analysts may be slashing earnings forecasts at a frightening speed - the number of global earnings downgrades exceeds upgrades by the most (50%) since 2008 -, but the market isn't too bothered as the MSCI World index has enjoyed a positive start to the year (+7% in euro). The reason?

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

EQUITIES

On the dark side of a late-bull market



With risk assets now more sensitive to macroeconomic factors and political uncertainty playing an increasing role, volatility in market sentiment is here to stay and defensive assets should outperform.

Fueled by its post-Christmas rally, the S&P 500 climbed almost 14%, in euro, since December 24 (versus +11% for the MSCI World index). This renewed appetite for risk assets, coming after the U.S. benchmark fell within points of the 20% bear market threshold (versus -16% for the MSCI World index), is due to an easing of monetary policy in China, a potential U.S – China trade deal, the possibility of a pause in the Fed's interest-rate hiking campaign and an alteration in its balance sheet reduction plans. The question is how long that pacification strategy will work? While China landed a lunar probe on the dark side of the moon, the first ever spacecraft to reach the surface that always faces away from Earth, financial markets are also on the dark side of one of the longest expansions on record as investors are attempting to adjust their portfolios in anticipation of a potential upcoming economic recession. The Federal Reserve Bank of New York gauge puts the chances of a U.S. recession at almost 20% a year from now. Even if is not yet worrisome, this is the highest reading since November 2008 and this is enough to generate higher volatility on risk assets.

BONDS

The bond data point to slowdown not meltdown

We continue to prefer the most secured sovereign papers over credit as the Brexit issue, a volatile stock market and an easing momentum across the world's major economies could prompt another flight to safety for bond investors closing out a rocky 2018.

Now we know. The rally in government bonds that pushed yields on U.S. benchmark 10-year notes down from more than 3.20% in November to less than 2.55% wasn't a sign that the U.S. economy was about to roll over into recession. As bond investors went from being bullish on Treasuries to bearish in the biggest reversal in sentiment since June 2018, 10-year yields rebounded to 2.8% in January. Even if pessimistic bond traders realize it is too soon to be pricing in a recession, that is not to say that economic growth won't decelerate, because it will, and there is enough that could go wrong, such as the Brexit issue or a glitch in the U.S.-China trade talks or a worsening euro zone economy, that could keep demand for government debt high. The OECD Composite Leading Indicator is the latest sign of a synchronized slowdown in global growth. The indicator, which is designed to anticipate turning points six-to-nine months ahead, has been ticking down since the start of 2018. But even if the loss of momentum is striking, the data point to slowdown, not meltdown !

OTHER ASSET CLASSES

China's record-setting commodity demand may be weakening

China, the world's biggest raw materials consumer, imported record amounts of commodities in 2018. But, as trade tensions with the U.S. exacerbate a slowing economy, its purchases are now showing signs of slippage. The prudent move for investors would be to reallocate assets from cyclical commodities, such as industrial metals, to defensive ones, such as precious metals.

Commodities surged during the last days of December (+3% in euro) and in January (+13%) after Presidents Trump and Xi set their trade conflict on pause. While far from resolved, the easing in tensions between the world's largest economies has gone some way to alleviating concerns that the trade war will damage more global demand. Furthermore, while commodities were weighed down by a stronger dollar, the dynamic may now be shifting as doubts build over the Federal Reserve's tightening path in 2019. However, the relief for commodities could be temporary as the delay to new tariffs isn't likely to overturn the less positive outlook for global activity. There are indeed plenty of signs that the global synchronized recovery has plateaued in 2018 and is now slowly turning into a global synchronized downturn.

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