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Dear investor,

- **Factories across the globe warned they are finding it increasingly hard to keep up with demand**, potentially forcing them to raise prices.
- **The synchronous global economic expansion and low volatility that propelled benchmarks to historic highs in 2017 remains intact**…
- **… and policy makers continue to back a "gradual approach" to raising interest rates.**
- In this context, **cyclical assets**, such as Technology, Energy and Materials at the sector level or Emerging Markets and Japanese equities at the regional level, and commodities, **should continue to outperform bonds.**

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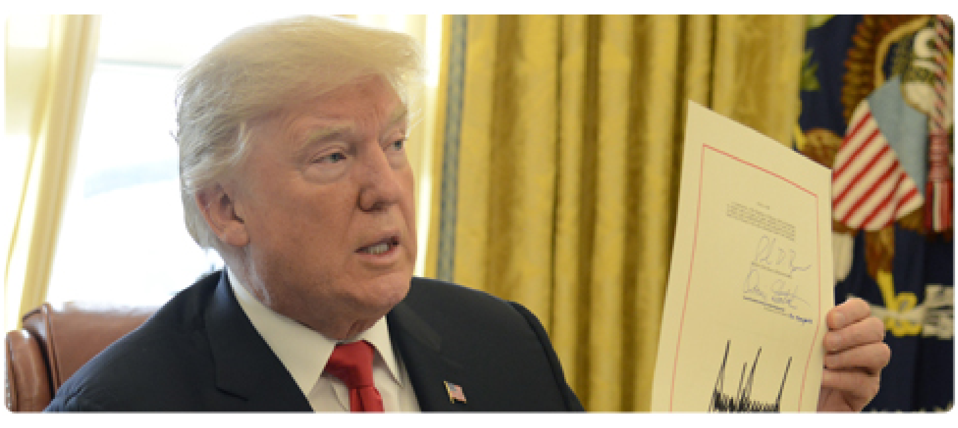
Thierry Masset, Chief Investment Officer ING Belgium

EQUITIES

Equity rally amid economic growth optimism



The largest overhaul of the U.S. tax code since 1986 and the global reflation trade have provoked a changing backdrop for capital flows in favor of cyclical assets such as Technology, Energy and Materials at the sector level or Emerging Markets and Japanese equities at the regional level.

Investor sentiment in the first weeks of the New Year has been buoyed by bullish economic data from the U.S. to Europe and China. Global stocks, especially the cyclical ones, recorded their strongest start for more than 25 years (+4.6% in USD and +2.8% in euro) as a slew of manufacturing gauges around the world indicate factories are running at full tilt. Factories warned they are finding it increasingly hard to keep up with demand, potentially forcing them to raise prices as the world economy looks set to enjoy its strongest year since 2011. For equity bulls facing the priciest market in more than a decade (the forward price/earnings ratio of world stocks is 16.7, which is 8% above its long term average), there is also good news on the corporate earnings front. Thanks to the U.S. tax cut passed into law in December, analysts have been raising their U.S. earnings estimates at a rate not seen in at least six years! Forecasts for 2018 profit (+15%) from companies in the S&P 500 index increased 3.5% over the past four weeks, the fastest pace over comparable periods in Bloomberg data that go back to 2012! Read More

- S&P 500's most-taxed stocks getting a lift from the U.S. tax cut
- Japanese stocks breached key milestones for the first time in more than a quarter century
- What traders are watching during the actual earnings season in Europe?
- Energy stocks are going to have a good year in 2018

BONDS

The bond market is not going quietly into the New year

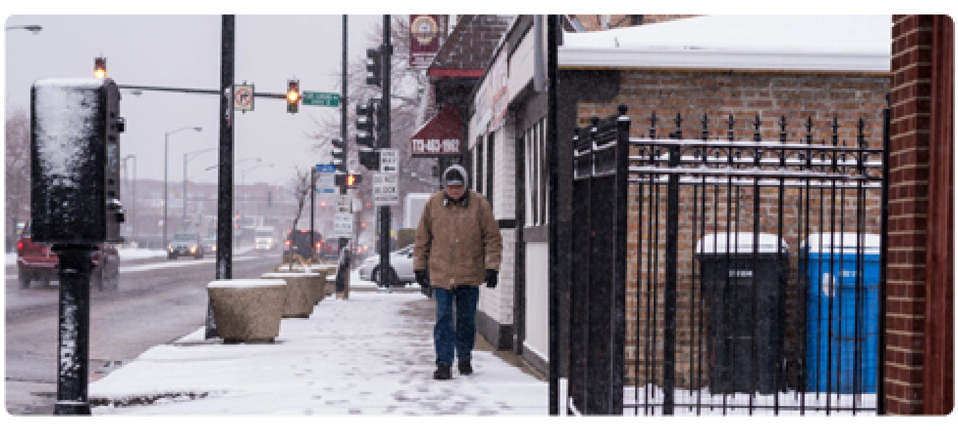
The conditions are in place for bond yields to head higher in 2018 as the labor market tightens further, bond supply increases and central banks are turning progressively less accommodative.

In a few swift moves last month, 10-year Treasury yields (2.65%) smashed above key levels to the highest since 2014. The pain isn't limited to the U.S. yields. German (0.60%), French (0.85%), and U.K. (1.35%) sovereign debt have been hit hard, as well. Although the usual year-end lack of liquidity may have exacerbated moves, it cannot be denied that the markets' tailwinds are rapidly turning into headwinds, from the world economy heading into its strongest period since 2011 to an increase in debt issuance to finance growing budget deficits and central banks turning from dovish to hawkish to prevent inflationary pressure. Bloomberg predicts net asset purchases by the main central banks will fall to a monthly $18 billion at the end of 2018, from $126 billion in September 2017, and turn negative during the first half of 2019. While central bankers may not care about the price they pay for government securities, investors do and they may demand higher yields! Read More

- The inflation-linked debt will continue to attract investors looking for a protection against inflation
- Emerging Markets face heavy debt rollover in 2018

OTHER ASSET CLASSES

Oil is boosted by freezing cold temperatures in the U.S.



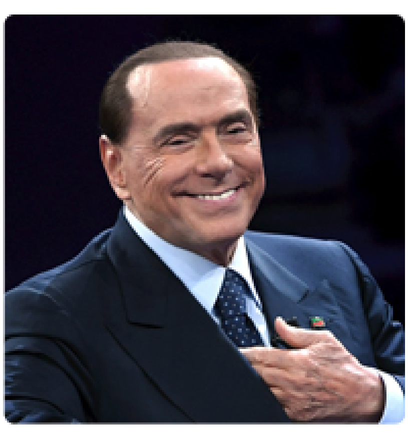
Investors tend to diversify into commodities as the U.S. face a cold snap, inflation accelerates, and China is setting new records for consumption of everything from crude oil to industrial materials.

Input costs remain elevated across a number of economies, partly reflecting higher raw material prices. The S&P and Goldman Sachs index of commodities rebounded 13% (in euro) since the beginning of September 2017 and reached its highest level in about 9 months as the rebound in the global economy is likely to sustain rising demand of basic resources and to drain commodities surplus! Their rise in recent days has also been aided by the vicious cold snap in the U.S. Although their current winning run tops the previous record of 11%, which was set in 2005, commodities remain well down on highs in 2008! Therefore, they have room for further appreciation. If the global economy can expand, as forecasted by many brokers, about 3.5%-4% in 2018, that would mean millions of barrels in extra demand for crude, thousands of tons of extra industrial metals, and more consumption of foodstuff. Read More

- Speculators have built up a record long position in Brent and WTI crude
- Gold moves inversely to inflation-linked yields

IN THE NEWS

Potential turbulence ahead for Italian assets?



Italian stocks started 2018 (+9.3%) stronger than any other major European peer, extending last year's 14% rally, even after President Sergio Mattarella called for general elections. Whatever the election outcome the threat of Italy quitting the Euro-Area has markedly receded as none of the larger parties is openly advocating an exit anymore. A stronger economic environment, the Frexit misfortunes of Marine Le Pen in France and the Brexit saga make any attempt to leave the EU or the euro look less appealing than before.

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Oil gives a boost to energy stocks

Energy is off to its best start in more than a decade, boosted by freezing cold temperatures in the U.S. and a bull run in crude prices as confidence that the global glut of oil that has weighed on prices may finally be easing. The price of oil reached a new milestone last month as Brent crude topped $70 a barrel in London for the first time in three years!

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Swiss equities have joined "records club"

The Swiss Market index (SMI) has taken more than a decade to achieve a feat that U.S. benchmarks have been pulling off with monotonous regularity - reach a record (9.611 points). Good earnings momentum, an indicator of economic output near to a four-year high relative to Europe and a weaker franc in 2018 could offer further support for Swiss equities.

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

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