FINALIZED MARCH 21TH, 2018

- 9-year-old bull market is not dead
- Bond market trapped between a hawkish Fed and a potential trade war
- China continues to gobble up the commodities market
- Lowest demand for Treasuries since crisis
- Trump's tariffs look like a self-inflicted wound
- Demand for corporate America is weakening

Dear investor,

- **Markets have quickly moved on from worrying about an inflation scare to focusing on continued political uncertainty in the U.S.** as Donald Trump’s move to slap tariffs on steel and aluminium imports stokes fears of trade retaliation which could derail the global synchronized growth.
- **With a higher financial volatility**, due also to the move away from excessive reliance on unconventional monetary policy, **equity markets seem unlikely to bounce rapidly back to where they were** as this environment offers a reason for investors to reduce a little bit their strategic exposure to risk assets.
- As the fundamental drivers of the rally, such as still-low real yields, robust global growth and profit-margin expansion, are still in place, **equities should be able to climb the so-called “wall of worry” in the medium term**.

Thierry Masset, Chief Investment Officer ING Belgium

EQUITIES

9-year-old bull market is not dead

Belgaimage

The most devastating bear market since the Great Depression ended nine years ago (march 9, 2009). Since then the S&P 500 has quadrupled in what is now the second-longest and second-strongest bull market in history. The question now is whether the bull run will live to see its 10th birthday. Equity investors do need to be wary of the rise of protectionism in the short term. But as the fundamental drivers of the rally, such as still-low real yields, robust global growth and profit-margin expansion, are still in place, equities should be able to withstand a higher volatility and climb the so-called “wall of worry”.

The bull market in equities turned 9 years old last month, but now may not be the time to celebrate as markets have quickly moved on from worrying about an inflation scare to focusing on continued political uncertainty in the U.S. Rex Tillerson's ouster raised concerns of a new guard in the White House that may take a harder line on trade, advancing President Donald Trump's agenda of imposing tariffs. With these uncertainties and a higher financial volatility, due to the move away from excessive reliance on unconventional monetary policy, equity markets seem unlikely to bounce rapidly back to where they were as this environment offer a reason for investors to reduce a little bit their strategic exposure to risk assets. But that doesn't mean that the “goldilocks” rally – still cheap capital, corporate profit growth, moderate volatility and inflation – has no more juice in the current cycle. Historically, equities tend to produce their best returns with inflation in the 1% to 3% range, which also happens to be what we are forecasting now. The lack of upside surprise on the U.S. consumer prices (up 2.2% in the 12 months through February, compared with 2.1% in January) and on the U.S. average hourly earnings growth (2.6% in February, versus 2.9% in January) indicate U.S. inflation is gradually picking up without any big acceleration that would warrant a faster pace of interest rate hikes.

BONDS

Bond market trapped between a hawkish Fed and a potential trade war

Belgaimage

In an environment of sudden swings – the 10-year U.S. yield rose by almost 1% since September 2017 –, bond investors appear to struggle in assessing the overall impact of an inflation gradually picking up, fears of trade retaliation resulting from higher U.S. import taxes and the uncertain size of the future net supply of sovereign bonds with longer tenors.

Bond traders are grappling with a complex mix of forces that seems now keeping 10-year Treasury yields locked below 3%. New Federal Reserve Chairman Jerome Powell appears open to raising rates four times this year, more than the central bank currently projects (three hikes). At nearly the same time, European Central Bank President Mario Draghi dropped a pledge to buy more financial assets if the economy deteriorates. These less accommodative strategies argue in favor of higher yields on the bond market. But Donald Trump's move to slap tariffs on steel and aluminum imports has stoked fears of trade retaliation and roiled global markets, spurring haven demand for Treasuries and other safest sovereign bonds, pushing down bond yields. After shooting up from about 2% in early September 2017 to as high as 2.95% in January, Treasury 10-year yields have eased back a bit, to 2.85% (still above the 2.37% average since the start of 2010). As for Treasuries, the outlook is even more complicated by the risk that higher import prices, resulting from higher U.S. import taxes, potentially push inflation above the Fed's 2% target. The Fed hopes to avoid that by raising interest rates, but it could trigger a recession if it tightens credit too much. The ideal is what economists call a "soft landing." But getting this much-desired and often elusive condition can be more art than science.

OTHER ASSET CLASSES

China continues to gobble up the commodities market

Belgaimage

While industrial commodities are vulnerable to escalating trade war, China continues to gobble up the world's natural resources. In a period of flux marked by industrial capacity cuts, environmental curbs and financial deleveraging, demand for raw materials continues to grow in the world's biggest consumer, with Xi Jinping at helm. In this context, investors should continue to diversify into commodities as inflation accelerates and global economic growth improves.

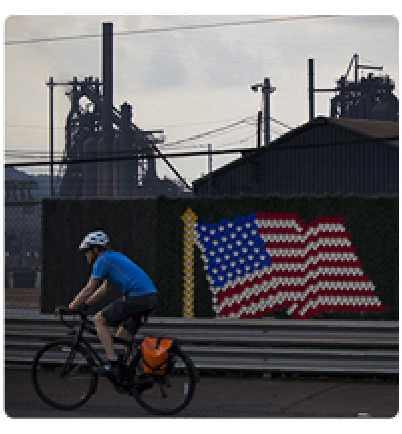
Besides steel and aluminum, other raw materials, such as base metals and energy, are vulnerable to escalating trade war as impact of protectionist measures on global trade could dent economic prospects across the world. Nevertheless losses in raw materials - the Commodity index of Goldman Sachs and Standard & Poor's has dropped 6% (in euro) since its recent top - are until now capped by speculation that the bullish outlook for demand remains intact. As President Xi Jinping consolidates power, there are few signs of the Chinese commodity juggernaut slowing. China's economic expansion has been beating expectations since the second half of last year, boosting demand for all kinds of commodities. As economists are expecting continued strength in economic growth in 2018, this context should keep up the nation's import appetite and support commodities prices.

IN THE NEWS

Lowest demand for Treasuries since crisis

Add one more thing to the list of worries for the world's most indebted nation: weakening demand at its bond auctions. While there is no danger of the U.S. being unable to borrow as much as it needs, over the past two years, the drop-off has been unmistakable. Based on the number of bids that investors submitted versus the actual amount sold, average demand for 10-year Treasuries has fallen to the lowest since October 2009.

Trump’s tariffs look like a self-inflicted wound



Belgaimage

“Trade wars,” President Donald Trump recently declared on Twitter, “are good, and easy to win.” But it is questionable whether the president's proposed tariffs will be a war or an act of friendly fire. Investors are worried that Donald Trump's comments on punitive tariffs will derail world growth but tariffs are, above all, not a good way to promote the U.S. domestic industry.

Demand for corporate America is weakening

Belgaimage

The relative gains in U.S. credit have been undone, partly by the prospect of all that extra debt U.S. Secretary of the Treasury Steve Mnuchin will have to sell to pay for tax cuts.

More information isavailable from your ING contact person.