FINALIZED MAY 25TH, 2018

- Cycle is maturing but not ending
- When central banks pull back, bonds look vulnerable
- Mission accomplished for OPEC
- More shareholders sign on to support climate resolution
- A sustained flat yield curve is consistent with economic stability
- Central and Eastern Europe bonds "safer" than Russian and Turkish ones

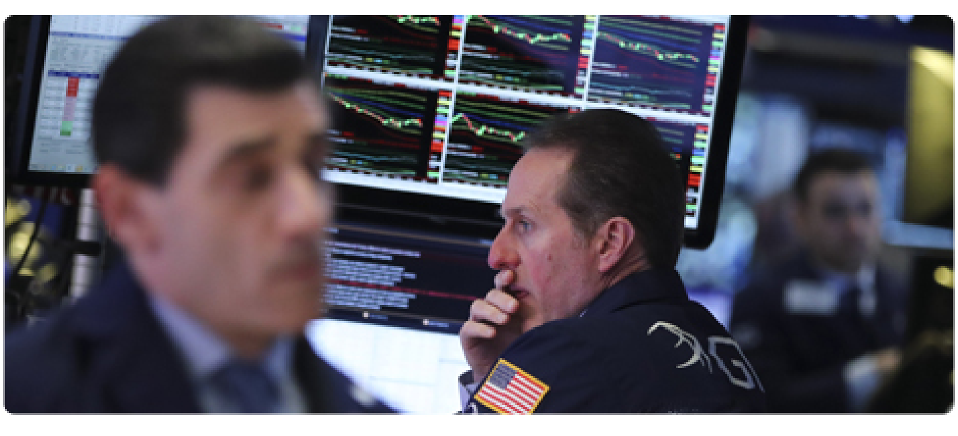
Dear investor,

- There is a growing consensus that **the poor investor reaction to earnings is the result of a perception that the first quarter marked the peak of year on year profit growth**.
- Speculation that the economy is nearing a recession also plays a role, of course. But, **while we may be in the late part of the economic cycle, we may not be so close to the end** as technology and globalization have contributed to a lengthening of economic and business cycles over the past 30 years just as they have contributed to the taming of inflation.
- The bullish outlook for demand, compounded by shrinking inventories and a years-long underinvestment in new supplies, explains why **commodities are the best performing asset class of 2018.**
- The dollar, U.S. yields and oil prices are all rising in tandem. That is a **toxic mix for Emerging Markets equities**!

Thierry Masset, Chief Investment Officer ING Belgium

EQUITIES

Cycle is maturing but not ending


Belgaimage

After analyzing past tops, it appears that Federal Reserve monetary tightening is taking longer to have detrimental impacts on the U.S. economy and markets, giving us increased conviction that gradually rising inflation and interest rates, which have not kept up with the acceleration in growth over the past several quarters, won't derail the bull market in equities. That being said, the pain for Emerging Markets (EM) isn't over yet as U.S. yields, greenback and oil prices are all rising in tandem.

U.S. Companies are beating earnings estimates at historic clip, at least compared to expectations. Whether it is the U.S. tax cut or just poor forecasting by analysts, members of the S&P 500 index have been delivering profits above estimates at the best pace on record - with 85% of members topping forecasts so far. Price reaction to the positive earnings has been less than stellar, with a paltry 2.4% return since JPMorgan Chase kicked off the season on April 13. There is a growing consensus that the poor investor reaction to earnings is the result of a perception that the first quarter marked the peak of year on year profit growth (23.75%), which now exceeds second quarter's (11%) and third quarter's (7.8%) of last year. Recent equity market weakness makes a lot more sense in light of these figures as stocks have historically hit a rough patch in the six months following a peak. However, stocks eventually found their footing and resumed climbing, so long as we are talking about a growth slowdown rather than a contraction in profits.

BONDS

When central banks pull back, bonds look vulnerable


Belgaimage

Although we don't expect that bond yields will increase at an accelerating pace, especially in an unstable geopolitical context, they are likely to continue to climb as years of ultra-loose policy has left real rates – or interest rates less inflation – artificially low. With the close of a period of ultra-accommodative and ultra-interventionist monetary policy, yields on 10-year Treasuries may climb as high as 3.3% by year-end.

The slide in U.S. Treasuries that spread across much of the global bond market - the Bloomberg Barclays World Sovereign Bonds index has lost 1.7%, in euro, since the beginning of the year - has seemingly taken a breather the past couple of weeks - the U.S. and German 10-year yields have retreated respectively from 3.11% to 3% and from 0.76% to 0.46% - in an instable political context. This includes, in particular, the fragile state of trade talk or the political instability in Italy. But make no mistake, there is more pain to come. With the close of a period of ultra-accommodative and ultra-interventionist monetary policy and higher inflation, which erodes the value of bonds and lead investors to demand higher yields, yields on 10-year Treasuries may climb as high as 3.3% by year-end, according to our economists. 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. As crude oil has climbed 60% (in euro) from its June 2017 low, inflation is also progressively emerging: the gap between yields on nominal bonds and inflation-linked bonds predict that the headline gauge for U.S. consumer prices will increase at 2.15% over the next decade.

OTHER ASSET CLASSES

Mission accomplished for OPEC


Belgaimage

Despite a decade of lackluster returns, the volatile trade policy of Donald Trump and Middle East tensions, the "strategic case" for buying commodities from crude to industrial metals has rarely been stronger. Growing global demand compounded by shrinking inventories and a years-long underinvestment in new supplies is clearing the way for sustained high prices. Rising interest rates should make the case stronger, as they depress returns for other assets and increase the need to diversify investments.

Oil has extended its rally last month to the highest level since 2014 (above 80 USD/barrel for the Brent and above 70 USD for the West Texas Intermediate) on heightened political risks in the Middle East following unrest in Gaza and the return of sanctions against Iran. The Donald Trump's decision to walk away from the Iranian nuclear accord fueled tensions in the energy-rich Middle East and raised concerns over supply disruptions: renewed U.S. sanctions on Iran could curb oil exports from the Organization of Petroleum Exporting Countries' (OPEC) third-largest producer. For the moment, investors are cautious to any sort of supply disruption, considering the tightness that we are seeing. OPEC can say "mission accomplished" in its quest to clear the global oil glut that caused the worst industry downturn in a generation. For the first time in three years, the chief concern in the oil market isn't too much supply as the excess in oil inventories in developed nations has plunged in April to about 20 million barrels/day below their five-year average. The rise in oil prices is even starting to cause concern across boardrooms, with some big industrial consumers, including airlines and shipping companies, starting to buy more insurance against rising energy prices. The increase in so-called consumer oil hedging, after a three-year period of low prices, is still relatively incipient, but has picked up over the last couple of weeks. This increase in hedging suggests that oil prices are flirting with a pain threshold for consumers, a potentially ominous sign for OPEC, which always keeps a watchful eye on demand growth. That is probably why OPEC and Russia signaled for the first time last month that they will in June discuss loosening their output cuts that began in 2017. It is thus premature to expect further oil prices upside to be sustainable.

IN THE NEWS

More shareholders sign on to support climate resolution

Belgaimage

Donald Trump may think climate change is a hoax, but the group of international investors known as the "Climate Action 100+" are increasingly prodding the world's biggest polluters to come up with stronger green strategies. That means that companies with business models that are robust within the Paris Agreement on limiting global warming are going to find it easier to access capital than those who aren't. As a result the Stoxx Global Climate Change Leaders index outperformed during the past two years by 17%.

A sustained flat yield curve is consistent with economic stability


Belgaimage

The tight gap between short- and long-term U.S. government bond yields is keeping central bankers and market participants on the edge of their seats because it is typically believed to foreshadow an economic slowdown. But a look at the 1990s reveals that the economy can thrive even during long periods when the yield curve is very flat.

Chinese stocks go global like never before


Belgaimage

On June 1, MSCI, the U.S. index compiler, has added more than 200 locally listed Chinese companies to benchmark equity gauges. While China's initial weighting in the MSCI Emerging Markets index (at 0.7%) is minuscule, that may grow to as much as 14% over time.

More information isavailable from your ING contact person.