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Dear investor,

- In the months ahead **the growth benefits of Trump's tax cuts should continue to outweigh the drag from Trump's tariff threats**…
- **… but it could be a close call and a bumpy ride** as other risks loom, such as the rise of populism and nationalism!
- **Profit forecasts help, so far, stocks to lessen the (geo)political noise**: 2018 earnings projections for world stocks are hovering around the highest level since 2008 and let hope a strong earnings growth this year (+20% in euro).
- But as the correlation among regions and asset classes has reached its highest level since December 2016, this is a possible signal that **the market's defensive positioning could prove more lasting if the rhetoric escalates toward an all-out trade war**.

Thierry Masset, Chief Investment Officer ING Belgium

EQUITIES

Equity markets are they living on borrowed time?

In the months ahead the growth benefits of Trump's tax cuts should continue to outweigh the drag from Trump's tariff threats. But it could be a close call and a bumpy ride as other risks loom such as the rise of populism and nationalism.

The global economy looks like a battle for influence between two questionable policies from U.S. President Donald Trump. On the one hand, a tax cut in a U.S. economy growing at close to full capacity has supercharged growth at the expense of medium-term fiscal sustainability. On the other, the opening shots in a trade war and the threat of full-blown hostilities could count growth as one their first casualties. For much of the past six years global equities have largely tracked investor sentiment toward the worldwide economy. But there has been a big divergence of late, with investor sentiment dropping steeply since the end of February to the lowest since 2016. Even so, world stocks have, so far, been little destabilized: the MSCI World index has gained 5.3% (in euro) since the beginning of the year and reached last month a new record high (in euro), while the S&P 500 index (+12%) hit a new high and recorded its longest bull market ever (more than 3453 days). Profit forecasts help the MSCI World index to lessen the (geo)political noise: 2018 earnings projections for world stocks are hovering around the highest level since 2008 and let hope a strong earnings growth this year (+19% in euro), while forward valuations (15.6) have retreated 13% from a January peak and are now just above the 20-years average (15.3).

BONDS

The Fed is finally making U.S. cash a viable alternative

Belgaimage

Swelling Treasury supply just as the Federal Reserve is about to increase the pace of its balance-sheet unwind and a possible government shutdown at the end of September, in the weeks leading up to the crucial midterm elections. It all raises the prospect of a period of bond market turbulence.

The slide in U.S. Treasuries that spread across much of the global bond market between January and May has seemingly taken a breather the past couple of weeks (the U.S. 10-year yield has retreated from 3.11% to 2.8%) due to an instable geopolitical context. Amid a tit-for-tat tariff standoff, new U.S. sanctions for Russia and the rout in Turkish assets, investors may still look to government debt as a haven in the days ahead as they assess the economic ripple effects of the levies and hedge against the risk that the protectionist measures will roil markets. Furthermore, the Fed interest rate increases are finally making cash a viable alternative, leaving U.S. bond investors to ponder whether to lend money to the government for 10 years at a rate of about 3% or buy 3-month Treasury bills and get a rate that is just a little less, currently at 2.05%.

OTHER ASSET CLASSES

Turkey creates storm on commodities

Belgaimage

As Turkey's financial crisis impacts Emerging Market currencies, encouraging local producers to boost sales of raw materials, which fetch dollars in return, traders look for profit taking on the commodities market.

The S&P and Goldman Sachs Commodity index covering everything from oil to metals fell last month, bringing its decline since this year's peak in May to 6% (in euro). What is worrisome about the drop is that it is being led by metals (-10% year-to-date) amid growing concern that the turmoil in Emerging Markets and a budding trade war between the U.S. and its major peers will curb global economic growth. Besides steel and aluminum for which the Donald Trump administration applied tariffs to imports, other raw materials, such as base metals and energy, are vulnerable to escalating trade war as impact of protectionist measures on global trade would dent economic prospects across the world and hurt cyclically exposed assets. But for now the price movement in base metals seems to be driven by speculative selling, rather than fundamentals (growing global demand, shrinking inventories and a years-long underinvestment in new supplies). As proof, commodities are still the best performing asset class of 2018: they have returned 9% (in euro), compared with 5.2% for equities and 3.4% for bonds.

IN THE NEWS

Lira drags Emerging Markets currencies down but contagion appears limited

The Donald Trump's decision to double steel (50%) and aluminum (20%) tariffs on a Turkish economy already reeling from a currency crisis came just days after imposing new sanctions on Russia, creating market havoc in both countries – the Turkish lira and the Russian ruble have respectively lost 38% and 14% since the beginning of the year.

Rising buybacks are a tailwind for European stocks

Istock

Europe's equity market may finally be getting a hand from the force that has supercharged the U.S. stock rally since the global financial crisis: share buybacks. European companies have unveiled blockbuster repurchase programs - from Royal Dutch Shell's $25 billion plan to Diageo's $2.6 billion - as their cash piles swell amid a continued recovery in profits.

French stocks are on the front lines

Belgaimage

French equities have shone against a tough backdrop for European stocks so far this year. Robust earnings and decent diversification put the CAC 40 in a great position to keep outperforming. France's benchmark index is already the best-performing major Western European gauge in 2018 (+1.8% versus -2.5% for the Euro Stoxx 50 index).

More information isavailable from your ING contact person.