ING Private Banking

Monthly Market Review

Thierry Masset, Chief Investment Officer ING Belgium

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- It is not "La Dolce Vita" on the financial markets
- A global bond sell-off forces up borrowing costs
- The de-stocking of raw materials has a physical limit
- Crypto and cannabis are the perfect post-crisis bubble
- The Emerging Markets' oil shock has already started
- Stocks in Oslo outperform thanks to salmon and oil

Dear investor,

- **A violent surge in U.S. Treasury yields**, unleashed by relentless American economic growth and expectations for tighter policy, **has repriced risk assets from credit to equities.**
- **Strong earnings have been the most important factor that has enabled the stock market to ignore the headwinds it has faced this year.** If the projection for future earnings suddenly becomes less bullish, it could/should be enough to upset the balance between the bullish & bearish macro factors that are facing the markets right now.
- To hedge against this uncertain environment, **we continue to prefer defensive stocks, such as pharmaceutical ones, companies with big capitalization or with stronger balance sheet, cash in yen or safest bonds.**

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EQUITIES

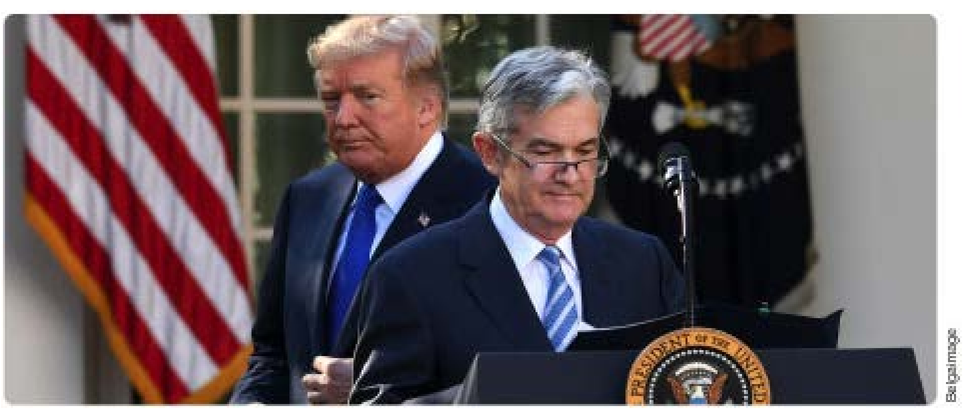
It is not "La Dolce Vita" on the financial markets

A violent surge in U.S. Treasury yields unleashed by relentless American economic growth and expectations for tighter policy have repriced risk assets from credit to equities. To hedge against a higher volatility, we maintain a neutral weighting to global equities, while favoring developed market stocks over emerging markets, and we continue to prefer defensive stocks, such as pharmaceutical ones, companies with big capitalization or with stronger balance sheet.

Market volatility has emerged after a prolonged stretch of quiet: the VIX index jumped as high as 23.7 on Wall Street, a level not reached since March and exceeding this year's average (15.2), and the yield on 10-year Treasuries climbed as high as 3.25%. Such instability is an indication of how much nervousness there is among investors. The reasons given are varied. The global bond market is tumbling, pushing global investment grade borrowing costs to their highest since 2012 (3.2%). The threat of a sharper-than-expected rise in interest rates and tightening monetary liquidity after a decade of easy money, which could accelerate capital flight from risk assets such as emerging markets. The escalating trade war between the U.S and China shows no signs of ending anytime soon — and may be getting worse. Italy looks to be headed toward a fiscal crisis and showdown with the European Union. The current bull market, which began in March 2009 and is now the second-longest in history. And a spike in oil prices or any other black swans that we can't identify. The mood is so gloomy that hardly anyone seems to be excited about what should be another U.S. blockbuster earnings season as risks to the global outlook have risen in the last three months and tilt to the downside.

BONDS

A global bond sell-off forces up borrowing costs



Borrowing costs have jumped on a global scale as investors anticipate faster U.S. interest rate increases amid continued U.S. economic growth and a deluge of debt supply. With yields on U.S. Treasuries surging as high as 3.25%, global investment grade borrowing costs have climbed to 3.2%, the highest since 2011.

Quantitative easing, the massive program of asset purchases by central banks that buoyed global growth and markets through the financial crisis, is finally swinging into reverse. The Federal Reserve's benchmark is now the highest since 2008 (2.25%) and, even if the pace of U.S. policy tightening has drawn criticism from President Donald Trump, the Fed chief, Jerome Powell, is signalling another hike in December and at least two more in 2019. Emerging markets from Argentina to India have acted to defend their currencies. All told, 10 of the 22 main central banks raised interest rates since the start of July. Seven are predicted to do so again before the end of this year. Bloomberg Economics' projections for the Federal Reserve, the European Central Bank and the Bank of Japan suggest that — taken together — net asset purchases for October will be fractionally below zero, down from $108 billion a year earlier. That is a positive as stronger economies no longer require extreme accommodation. Yet it comes with risks attached as global public sector debt is up 26% as a share of GDP since 2007 and is projected to continue rising, reaching 93.4% by 2019. The move is almost entirely driven by the developed markets, whose fiscal debt is up over 41% since 2007. As the public borrowing will keep on rising – global net supply of government bonds, on track to increase by $1.244 trillion in 2018, should increase by $1.824 trillion in 2019 – this should push rates up.

OTHER ASSET CLASSES

The de-stocking of raw materials has a physical limit

Despite the recent volatility, raw materials are poised to remain robust as the market has already factored in an extended standoff between the U.S. and China, growth in top economies remains strong, there are physical shortages and consumers who had put off purchases in recent months start buying again.

Commodities were hit by higher stock market volatility as risk aversion has spread through global markets. After having reached a 3.5-year high earlier last month, they finally erased nearly all their monthly gains (more than 4%, in euro). But that does not take into account the fact that the spike in trade tensions earlier this year had prompted some users, especially in China, to defer purchases, and draw down inventories. That de-stocking cannot last indefinitely and physical buyers will probably return to key commodity markets like oil. Oil is near the highest level in four years and should remain supported by concerns that the looming U.S. restrictions on Iran will squeeze shipments and spur a global crunch at a time when supplies are already being disrupted in Venezuela and Libya. Investors remain concerned the Organization of Petroleum Exporting Countries and its allies aren't raising output quickly enough and that they may not have the capacity to fully cover disappearing volumes.

IN THE NEWS

Crypto and cannabis are the perfect post-crisis bubble

Lately we have seen the emergence of strange new bubbles. The wild trading in shares of Canadian marijuana company Tilray in September - in which its market value briefly exceeded that of American Airlines - felt a lot like last year's Bitcoin frenzy.

The Emerging Markets' oil shock has already started

With Brent crude surging above $80 a barrel and some analysts warning that $100 is just around the corner, it is comforting to remember that we are still a long way from 2008, when oil hit an all-time record of $147.50. Comforting, but wrong. For much of the world's population, we are already, in local currencies, at or near the worst levels endured during the 2008 oil price spike.

Stocks in Oslo outperform thanks to salmon and oil

The world's best performing benchmark stock index this year is, surprisingly, in Europe. The continent is largely a sea of red except on its northern fringe, where stock traders are driving the Norwegian market higher (+15% so far this year) by making bets on fish farming and oil stocks.

More information is available from yout ING contact person.

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