FINALIZED FEBRUARY 18TH, 2019

Dear investor,

- When the Fed Chairman Jerome Powell indicates greater willingness to be patient before tightening monetary policy again and, even more important for markets, signals that he is flexible on the path for reducing its balance sheet, **there is a reason to follow the old maxim of "don't fight the Fed."**
- **But what investors seem not to be discounting is that the more volatility declines and talk of complacency heats up, the more inclined the Fed might be to raise interest rates**, maybe not this quarter or the next, but possibly in the second half of the year.
- Furthermore, global political uncertainty at record level, disappointing manufacturing activity, weaker earnings growth, and lower consumers and fund managers confidence are sufficient reasons for **not chasing the rally in risk assets, particularly in areas vulnerable to growth downgrades, geopolitical risks or sudden shift in supply/demand dynamics.**

Read More

Thierry Masset, Chief Investment Officer ING Belgium

EQUITIES

A V-shaped recovery


Belgaimage

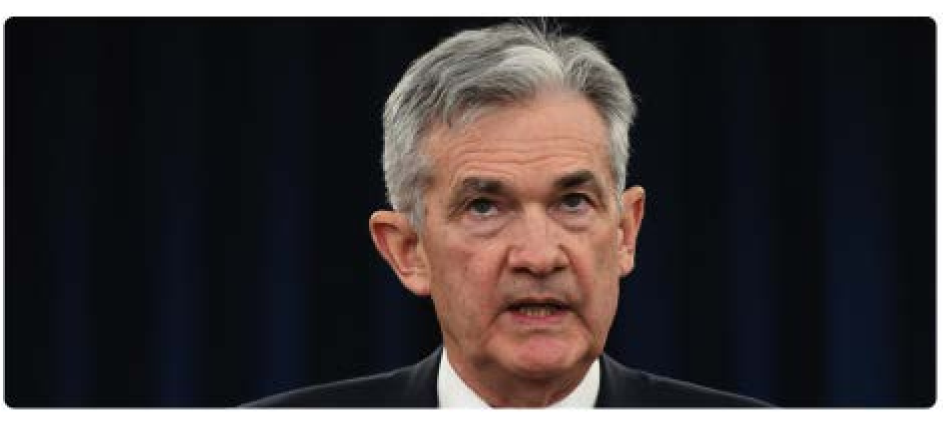
Global political uncertainty at record level, disappointing manufacturing activity, weaker earnings growth, and lower consumers and fund managers confidence are sufficient reasons for not chasing the rally in risk assets, particularly in areas vulnerable to growth downgrades, geopolitical risks or sudden shift in supply/demand dynamics. If the deceleration on earnings becomes worse than expected, then there will be a potential for higher levels of volatility for the stock market.

Despite all the challenges facing the global economy and markets — the U.S.-China trade war, the looming Brexit deadline, the rapidly deteriorating euro zone economy… — this year's remarkable surge in global equities (+10% in euro) sparked optimism that the recovery from the fourth quarter's steep sell-off would be V-shaped. One big reason is that investors overwhelmingly believe the Federal Reserve is done raising interest rates and may even stop shrinking its balance sheet assets. Such speculation outweighs the angst over just about anything else. But what investors seem not to be discounting is that the more volatility declines and talk of complacency heats up, the more inclined the Fed might be to raise interest rates, maybe not this quarter or the next, but possibly in the second half of the year. Furthermore, the Fed would almost certainly continue to shrink its balance sheet, withdrawing some $50 billion of liquidity from markets each month. What investors keep also forgetting is that the outlook for corporate profits is bleak, with many strategists forecasting an earnings recession. Consensus expectations imply earnings growth will slow in the year ahead, resulting in 2019 average earnings per share gains of 5-5.6% in the U.S. and 5.5%-5.7% at the world level. That is weaker than the 8.2% and 7% average of the past five years. There is kind of a danger zone when earnings estimates start the year where they are! Most of the time when you are expecting less than 6% at this time of the year, you get a negative number as full-year earnings estimates normally drop by about 0.5% each month! Read More

- **Europe looks like the biggest threat to global growth.**
- **Fed's pause allows Emerging Market central banks to exhale.**
- **Cheaper stocks may have begun a turnaround relative to the shares of faster-growing companies.**

BONDS

The Fed will be patient


Belgaimage

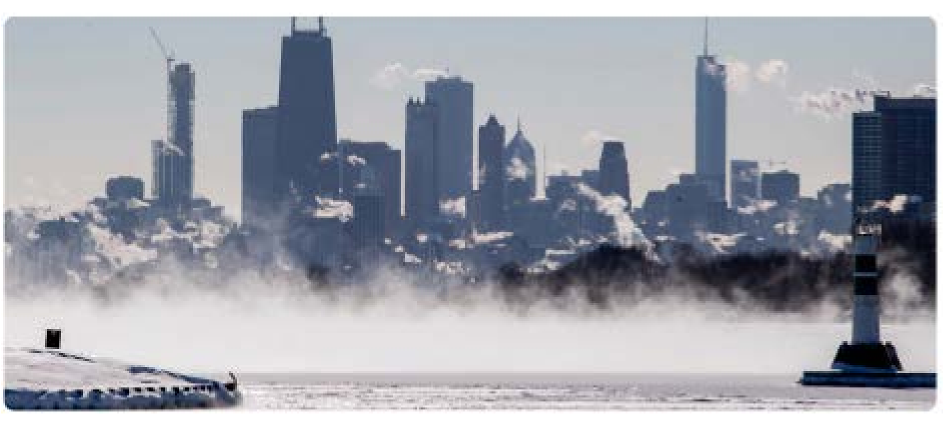
For anyone who wanted the Federal Reserve (Fed) to slow down, Jerome Powell did even better: he brought the Fed to a grinding halt by taking interest rate hikes off the table for now. That dovish tilt in monetary policy has burnished debt's appeal. Bonds have rallied worldwide as investors seek safety of fixed-income assets with rising risk to economic growth.

In a month billed as a pivotal health checkup for global growth, Fed Chairman Jerome Powell didn't disappoint as he indicated even greater willingness to be patient before tightening monetary policy again and, even more important for markets, signaled that he is flexible on the path for reducing its balance sheet. Markets interpreted it as a full-blown capitulation. Stocks soared and government bond yields tumbled across the globe. In Japan, the 10-year yield is -0.03%, the second-lowest level in the past two years. In Germany, the 10-year bund yield fell to 0.08%, the lowest since October 2016. The 2-year Treasury yield, the most sensitive coupon-bearing maturity to Fed policy, tumbled to 2.50%. Jerome Powell is suddenly worried about the global economy and that concern is on display in the global bond markets where the value of bonds with below zero yields ($9 trillion) increased the most since 2017! Investors wouldn't be scrambling into safe government debt, bidding up prices and pushing yields below zero, if they thought all was right in the world! Read More

- **Bond markets signal ECB may have missed Its chance to lift rates**
- **Investors are adding riskier debt as Federal Reserve pauses rates.**

OTHER ASSET CLASSES

Curious commodities


Belgaimage

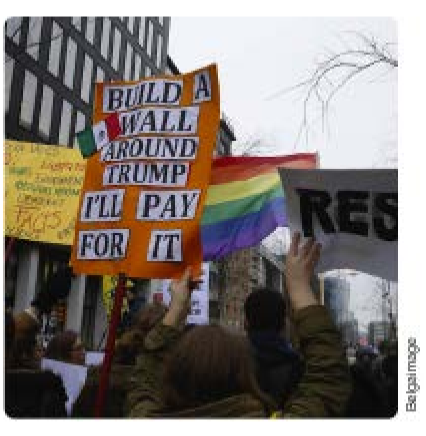
While worries about a slowdown in global growth, the Arctic freeze griping U.S., heightened geopolitical tensions and financial market volatility support gold demand, a less hawkish Fed has also shifted investors toward more cyclical natural resources, such as oil and industrial metals.

It would be easy to peg the rebound in everything from oil (+25% since the beginning of the year) and nickel (+17%) to gold (+4.5%) on an improving economic outlook, but that would be a bit naïve. For one, the moves have largely been idiosyncratic. Oil has jumped as OPEC and its allies make headway in cutting production, as well as concerns about what turmoil in big producer Venezuela may mean for supplies going forward. Nickel recorded the longest run of gains in almost eight months thanks to optimism over U.S.-China trade talks and tight supplies. Then there is the price of gold, which has surged to about $1,320 an ounce, the highest since May 2018, in a sign of demand for haven assets. A better explanation for the biggest rally in commodities (+14%) since April 2016 may be the outlook for a slowing pace of interest rate increases by the Fed. After all, a dovish central bank generally creates a better demand outlook and translates into faster inflation, and commodities are a traditional hedge against faster inflation. Breakeven rates on 10-year Treasuries — a measure of what bond traders expect the rate of inflation to be over the life of the securities — rose in January and February by the most since March 2016 (from 1.7% to 1.9%). The Fed's pivot has also caused the dollar to weaken, and a weaker dollar generally makes commodities more affordable because they are largely traded in greenbacks. But further weakness at factories could undermine some of cyclical commodities' recent gains. Looser U.S. monetary policy, particularly on the expectation of slowing growth, should tend to support gold more than other raw materials. Read More

- **Central banks have bought more gold last year than any time since 1971.**
- **Energy markets are flying higher, but it is not because polar freeze grips U.S.**
- **Industrial metals have widest premium to global factory activity since 2015!**

IN THE NEWS

Betting against Trump is a market winner

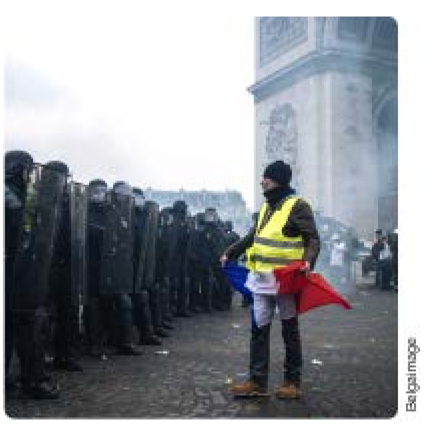


Belgaimage

If you run a publicly traded company, it was better for your stock price to be Donald Trump's friend or foe? Anti-Trump stocks outperformed Pro-Trump stocks by 42% since he came to power in 2016!

Read More

The Euro-Area faces substantial risks


Belgaimage

The gloomier outlook in the Euro-Area reflects more pronounced weakness in the region as political instability continues to rock Italy, violent protests in France decrease output, and Germany's car industry struggles to rebound from changes in regulation. Global trade uncertainty and a sharper-than-expected slowdown in China also pose external risks to the economic outlook.

Read More

Global economic uncertainty is at record high level !

According to the Global Uncertainty index, based on the frequency that newspapers cite "uncertain" or "uncertainty" in relation to economic policy, the unpredictability in 20 countries has reached a record level amid the U.S.-China trade talks, the U.K.'s continuing Brexit follies, the fact that Italy has formally entered a recession, or political strife in Venezuela to name just a few potential headwinds.

Read More

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