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- The rebound in stocks may have hit a ceiling!
- The disconnect between bonds and stocks is coming back
- Some commodities signal risk assets rally has gone too far
- ECB may have made European banks even less attractive
- Forgetting tragedies, investors give Greek assets a chance
- Sweet spot for convertible bonds

Dear investor,

- **There is still a lot of uncertainty** with trade negotiations, China's economy, the weaker Eurozone data and unclear picture about U.S. data. This all **makes it a very hard market to trade.**
- **The global trade remains subject to political pressure** and difference between China and the U.S. will likely continue to inform market sentiment.
- **Cyclicals stocks appear to be pricing in a stronger economic growth outlook than supported by the data** - one reason we downgraded equity to underweight last month. Basically it's a bit worrying when the economic signs are worsening and the stock markets are rallying.
- Among the signs of deficient fundamental support is the **lack of rising bond yields.**

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*Thierry Masset, Chief Investment Officer ING Belgium*

## IN THE NEWS

### ECB may have made European banks even less attractive

The new round of long-term European Central Bank (ECB) loans is just making European banks look less attractive and it may be some time before their valuations improve.

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### Forgetting tragedies, investors give Greek assets a chance

Amid all the European gloom, there is one country that has been doing surprisingly well recently: Greece. The macro data coming out of the country have been pretty good over the past few months and the Greek stock market have outperformed in the Euro-Area. It has gained more than 18% since the beginning of the year, versus 13% for the Euro Stoxx 50 index.

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### Sweet spot for convertible bonds

Convertible bonds are the best asset class that no one knows about. The securities, which can be swapped for shares at specified prices and are supposed to provide equity-like returns during a stock-market rally while behaving more like fixed income during any risk-off episodes, are outperforming.

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

## EQUITIES

### The rebound in stocks may have hit a ceiling!

**Cyclical sectors have rebounded against defensives, while more volatile and leveraged shares have regained favor. But, with the corporate profits and the shares of companies that are most sensitive to the earnings cycle moving in opposite directions, that signals trouble ahead for risk assets. That is why we have decided to take risk off the table by reducing exposure on global and Emerging Markets equities as their performance now looks stretched if history is any guide.**

What explains the resilience of world's equity recovery this year despite worsening economic data and political wobbles? The obvious candidates are the excessive sell-off in late 2018, a less hawkish Federal Reserve and optimism over U.S.-China trade talks. But when the MSCI World index is again close to its October's historical peak, with more than 60% of all MSCI World stocks being above their 200-days moving average (versus 15% at the end of last year), you have got to wonder how much support you can still count on from those three factors. Especially when the rally in world stocks since Christmas (+18% in euro) is lacking a few critical ingredients that normally accompany such a rapid rise. First, flows into equity mutual funds have been minimal relative to the outflows saw in the second half of 2018. Second, trading volumes are relatively muted. Third, and perhaps most unusual, the outlook for corporate profits this quarter and next is bleak, with many strategists forecasting an earnings recession (meaning two quarters of negative growth). Consensus expectations imply earnings growth will slow in the year ahead, resulting in 2019 average earnings per share gains of 3.4% in the U.S. and of 3.2% at the world level.
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- **On the 10th anniversary of the start of the global equity bull market, European stocks don't have that much to celebrate.**
- **Rally in cyclical stocks could be false positive.**

## BONDS

### The disconnect between bonds and stocks is coming back

**Dovish monetary signals in the U.S. and Europe have spurred a rush to risk assets, but bonds investors don't forget that the economic momentum is clearly easing across the world's major economies. Growth angst is indeed feeding haven demand for longer-dated and safest debts. Among the signs of deficient fundamental support is the lack of rising bond yields!**

It is the latest chapter of the ever-raging battle between stocks and bonds. Government bonds yields signal a brewing economic slowdown while equity bulls are cheering the business cycle. The schism is testing the mettle of investors mulling whether to ride or fade the €10 trillion new-year world stock rally. The MSCI World index is on track for the best three-month run since 2012 (13%), fueled by the most economically sensitive sectors, even as sovereign bond yields (1.3%) hover close to the lows plumbed during the recent global market meltdown. As the flows in sovereign bonds is often a lead indicator for the cycle - historically, the bond market has had a better record of predicting the economy than the stock market -, it is sounding the alarm that the fast re-rating of stocks after the overwrought correction in 2018 has probably gone too far. The S&P 500 index has jumped more than 10% since the U.S. central bank chief Jerome Powell said early January that the Fed will be "patient" with the tightening trajectory. That compares with an average 11% six-month return fed by monetary pauses historically! Read More

- **ECB's dovish Mario Draghi drags yields lower across Eurozone.**
- **Corporate bond markets haunted by elevated risks.**

## OTHER ASSET CLASSES

### Some commodities signal risk assets rally has gone too far

**We keep a preference for gold as a slowing global growth, a potential weaker U.S. dollar and a drive by central banks to expand the amount of gold they hold could be a winning trifecta for investors seeking a recovery in the metal's price.**

A commodity gauge, that wouldn't look out of place in the California Gold Rush, is telling investors the rally in risk assets may have gone too far. The Commodity Research Bureau's US Raw Industrials index (CRB RIND index), which can be considered free of financial speculation as none of its components (such as copper and lead scrap, rubber, or tallow) have listed futures, has failed to match the post-Christmas rise in stocks and junk bonds. Although the index stabilized well ahead of the trough in equities late last year, its rebound in has been far more muted than the bounce in both equity and credit markets. The MSCI All-Country World index has risen about 18% (in euro) since Christmas Eve and the Bloomberg Barclays Global Corporate High Yield Total Return index is up almost 6%, while the CRB RIND index has risen 3% over the same period. Taken alone, this suggests the rebound in risk assets since December may have overshot the improvement in fundamentals. As the commodity gauge has led major turning points in equities by about 3 months in recent years, stock investors will need to be somewhat more cautious... Read More

- **Oil has jumped as OPEC and its allies make headway in cutting production.**

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