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- Stock markets are brushing off the risks so far
- The inverting yield curve is about more than recession
- Commodity chaos deepens as China calls Force Majeure
- What does a "junk bond" even mean anymore?
- Green buzz is helping Utilities overcome red flags
- Clean energy shares roar to 10-year high, fueled by Tesla

Dear investor,

- **The lesson of SARS is that disease outbreaks can have a marked negative impact on China's growth.** If that happens again, China's larger role in the global economy would significantly increase spillovers.
- **The other lesson of SARS**: a panicked reaction in the early stages of the outbreak can overstate the risks, but **the negative impact markets typically normalizes within a few weeks.**
- If this pattern proves true again, **investors should look for stabilization in the number of new cases as a potential inflection point for risk assets.**

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Thierry Masset, Chief Investment Officer ING Belgium

EQUITIES

Stock markets are brushing off the risks so far

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As we see grounds for cautious optimism that the outbreak can be brought under control and as the epidemic adds to the pressure on governments and central banks to keep conditions easy and to improve global liquidity, this period of instability may offer an opportunity to buy on weakness.

The coronavirus "COVID-19" and the temporary drop in share prices - world stocks have briefly lost more than $2.5 trillion in market value - show how vulnerable the global markets are to external shock. But even if no one can accurately predict the spread of the disease and its consequences, reviewing the news flow on China's economy during the SARS virus shows a clear pattern: virus left no permanent economic and market scars. The first part of the second quarter of 2003 saw a panicked reaction, with economists rushing to downgrade their forecasts and markets taking profits (the MSCI World index recorded a loss of 8%). By the end of the quarter, with the outbreak under control, forecasts for the third quarter and the second half of 2003 were coming back up again and markets were improving (the MSCI World index finished the year on a gain of 24%), thanks to pent-up demand and government stimulus. If this pattern proves true again – and that could be the case because total assets at the federal Reserve, European Central Bank, Bank of Japan and People's Bank of China have grown by nearly $630 billion, since bottoming at $19.3 trillion in September – , investors should look for stabilization in the number of new cases as a potential inflection point for risk assets.
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- **We still expect Emerging Market equities to benefit more from likely market rotation.**
- **Big companies have never dominated the S&P 500 like they do now.**

BONDS

The inverting yield curve is about more than recession

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While President Donald Trump says Senate gave him "Full, Complete" acquittal in his impeachment trial, that does not seem to have completely reassured bond investors which are screaming again for more monetary easing in response to the spread of the deadly virus from China. The global economic outlook was fragile before the coronavirus came along and that argues government bond yields will struggle to rise much even if the disease outbreak concerns fade rapidly.

Bond yields typically rise alongside the maturity of debt because they provide compensation for the effects of inflation. If yields on a 10-year note are higher than those on a three-month bill – this is called an upward-sloping curve -, it suggests investors have an optimistic view of growth and inflation a decade from now. Last month, however, the opposite was true. A key slice of the U.S. yield curve inverted for the first time since October 2019. The gap between the yield on 10-year and 3-month Treasuries slipped to as low as -0.06%. This spread - seen by some as a warning signal because it has inverted before each of the past seven U.S. recessions - last reached those levels as economic conditions deteriorated at the height of the trade war. This time, the inversion highlights broader market fears that the Chinese coronavirus and its human and economic threat could spread. The more that it does, the more likely it starts to alter consumer and corporate behavior and to increase doubts over the ability and commitment of policy makers to shore up growth and spur inflation.
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- **Europe credit risk hits lowest since 2011.**

OTHER ASSET CLASSES

Commodity chaos deepens as China calls Force Majeure

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As the coronavirus is spreading fast and having a significant impact on the Chinese economy, the demand and prices for commodities may be affected for the next several months with factories and construction sites in most Chinese provinces shut and with travel significantly curtailed. Demand and prices will only gradually rise when the outbreak will ease.

Disruptions to global commodity trade flows are worsening as China delays shipments of key raw materials including crude oil, LNG or copper because of constraints caused by the deadly coronavirus. The delays signal deepening chaos for commodities as the world's largest importer of commodities quarantined cities, shut highways and extended holidays in two-thirds of the country to slow the spread of the disease. Those logistical disruptions are expected to tangle global supply chains and destroy demand for raw materials. Miners in Indonesia to gas producers in the U.S., as well as winemakers in Australia and even fruit and seafood merchants in Chile are at risk… This year's virus-driven slump in global commodity prices is tracking similar declines seen during the 2003 SARS outbreak. The Bloomberg Commodity Spot index, which is down about 14% so far this year, fell as much as 9% in March 2003, as the World Health Organization issued an emergency travel advisory, before rebounding to erase all losses by October. Using this timeline as a template, commodities could be near a bottom.
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- **Gold shines as virus fears boost haven demand.**
- **Oil will still be sickly after the virus.**

IN THE NEWS

What does a "junk bond" even mean anymore?

The spread between U.S. junk bond yields and their high grade counterparts has reached levels (around 2.6%) that hearken back to the high risk appetite days of the October 1997's tech bubble and the June 2007's subprime crisis.

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Green buzz is helping Utilities overcome red flags

Just two months into the new year, one sector is already well ahead of the pack: utilities. They have surged 11% so far in Europe and 6% at the world level, and have positives aplenty: an environmental, social, and governance (ESG) focus, a defensive nature as bond proxies and high domestic exposure (read: little or no exposure to China overall).

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Clean energy shares roar to 10-year high, fueled by Tesla

Clean energy shares, long seen as chronic under-performers on the stock market, have taken off in recent weeks to revisit levels not held for about 10 years. Tesla, which has high innovative strength regarding battery-electric vehicles as well as connectivity, has seen its market capitalization jump above $100 billion.

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