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- The fundamental earnings backdrop remains uneasy
- The German bond market yields nothing
- The stars are aligned for gold
- World's retirees risk running out of money a decade before death
- Low yields fuel government sales of century bonds
- Would ECB buying equities be a good idea?

Dear investor,

- Investors have fled equities in favor of bond and money market funds at a record rate this year as **confidence wanes in central banks.**
- Drivers for the global **fixed-income rally** include trade tensions, tumbling inflation expectations and anxiety over economic growth, prompting central banks to talk up the prospect of looser policy.
- **Investors are hedging an economic downturn** and paying hefty premiums for companies posting reliable earnings growth and dividends - the likes of consumer staples, healthcare or real estate.

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Thierry Masset, Chief Investment Officer ING Belgium

IN THE NEWS

World's retirees risk running out of money a decade before death

One of the toughest problems retirees face is making sure their money lasts as long as they do. From the U.S. to Europe, Australia and Japan, retirement account balances aren't increasing fast enough to cover rising life expectancy, according to the World Economic Forum.

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Low yields fuel government sales of century bonds

Rather than creating a new 100-year issue, Vienna decided to reopen to new takers its existing 2117 century bond, which is currently yielding just over 1%, highlighting just how desperate investors are for returns. Demand is definitely there for ultra-long, top-rated government debt as pension funds and life insurers scrabble around for any kind of safe returns.

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Would ECB buying equities be a good idea?


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Just when the market is looking for a positive catalyst to revive its rally, the European Central Bank's Governing Council member Olli Rehn seems to think it is a good move to float the idea of equity purchases as a means of monetary stimulus. But a number of investors and strategists aren't too thrilled and warn of the risk of artificially overvalued assets.

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

EQUITIES

The fundamental earnings backdrop remains uneasy


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Investors are still overweighting assets that outperform when interest rates and earnings fall and underweighting those positively correlated to rising growth and inflation as trade policy uncertainty is at levels not seen since Nafta ratification in the 1990s.

It doesn't take a rocket scientist to understand why investors are more risk averse. Not only has the synchronized global recovery turned into a synchronized slowdown, but risks beyond the economy are emanating from nearly every part of the world. Some of those include increased tensions with Iran, North Korea test-firing missiles again, the U.K. careening toward a hard Brexit, political turmoil in Italy, Argentina or Hong Kong, unrest in Venezuela, the end of a landmark arms-control pact between the U.S. and Russia, and the never-ending trade war. To cope with what could be a kind of permanent state of trade conflict and the risk to see the global economy entering recession next year, investors are flocking to safer assets. Bonds rallied, sending sovereign bond yields (0.75% on average) to the lowest since the end of 2016, while the value of stock markets has lost nearly 6% (in euro) since its peak on July. The risks to the earnings growth, the ultimate driver of stock prices over the long term, are decidedly skewed to the downside. So far, the earnings growth for the second quarter, based on the figures provided by the companies, is weak: +2% for the S&P 500 and -1.2% for the Stoxx 600. After the disappointing first quarter (+1.30% for the S&P 500 and 0% for the Stoxx 600), analysts are now forecasting a drop in third-quarter profits and have trimmed full-year estimates to a mere 3.8% in the U.S. and 2.4% at the world level. At the start of the year, analysts were forecasting growth of around 6% for 2019!

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- Cyclical-Defensive gap is worse in Europe than in the U.S.
- China trade war has investors flocking to consumer stocks.

BONDS

The German bond market yields nothing

We seem to have transitioned to a completely different market environment with yields set to test more eye-watering lows and negative levels around the world. The amount of bonds globally with negative yields surged to a record €15 trillion last month after Federal Reserve president Jerome Powell joined other central bankers in mooting renewed stimulus on the growing threats to global economic growth.

The universe of negative-yielding bonds grew about €1.6 trillion last month after the Federal Reserve's decision to lower rates (to 2-2.25% from 2.25-2.50%), pushing the total past $15 trillion for the first time. Joining the club of government debt with 10-year yields below zero were Austria, Sweden, Belgium or France. In Europe, another notable milestone was reached last month. Yields on German debt due to mature 30 years from now dropped to a record low (-0.14%), leaving the entire curve in negative territory. Some 45% of global bonds are yielding less than 1%, according to data compiled by Bloomberg! It may seem logical that lower policy rates lead to lower market rates, but it is not. Markets are forward looking, and have anticipated the Fed rate cut for months. So the logical moved should have been a "buy on the rumor, sell on the news" event. The fact that global yields fell suggests something ominous, which is that perhaps the Fed may be behind the curve and that its quarter-point reduction will do nothing to stem the slowdown in the economy. It turns out that Trump's tweet announcing new tariffs justified those notions, and will likely cause the global stock of negative-yielding debt to expand even more. But what about the logic of a world where yields are actually negative, meaning lenders actually pay borrowers to take their money, rather than the other way around? Have bond traders gone nuts? A lot of smart thinkers in recent weeks have suggested thinking about negative yields in a way that actually makes sense. To these people, holding a bond - especially a government bond - with a yield below 0% is not much different than paying a bank for a safe deposit box to hold one's valuables. You might not make any money, but you know the money you do have is safe.

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- All $850 billion of Germany's bond market are now yielding nothing.
- Investors in the high-yield bond market are becoming more risk averse, especially in the U.S.

OTHER ASSET CLASSES

The stars are aligned for gold

Gold's climb to a six-year high on a cocktail of positive drivers, with simmering geopolitical and trade tensions boosting demand for havens, weak data feeding expectations for fresh easing from central banks, sovereign bond yields hitting a three-year low, and central banks expanding the amount of gold they hold.

The precious metal has soared almost 15% since late May to about $1,500 an ounce, which is the highest since 2013. Gold has gotten a boost from the sudden spike in negative-yielding debt. The thinking here is that many investors in search of a safe place to park some money would rather hold gold paying no interest than bonds that are guaranteed to lose money if held to maturity. Gold became even more alluring on the news that Trump has tapped two economists to the Fed's board who are both seen as likely to support lower U.S. interest rates. That is also true in the case of the European Central Bank, where International Monetary Fund Chair Christine Lagarde - who has leaned dovish - is scheduled to take over later this year. This explains why money has been flowing into bullion-backed exchange-traded funds (ETFs): total holdings of gold among ETFs hit 2,310.4 tons, the most since 2013.

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- Following bond yields and yuan lower, commodities get cheaper.
- OPEC's global inventory goal seen impossible