FINALIZED NOVEMBER 20TH, 2019

- The rotation towards value stocks has further to go
- The bond game isn't over yet
- Commodities hope to stay afloat
- The global rally in stock prices has been a "quality" rally
- Fear of missing out
- Arrivederci Mario

Dear investor,

- **As the risk of a global trade war seems less strong**, at least in the short term – a single tweet can still change the narrative –, **risk-averse investors will probably need to tactically bet on lagging assets such as value stocks and reduce their exposure on less cyclical assets** such as big caps, low-volatility and defensive stocks where there was some overbought conditions.
- Even if the uncertainty about the impact of the current economic slowdown on upcoming results will probably continue to support quality stocks and defensive assets, **the rotation towards value stocks, small caps and cyclical stocks has probably further to go.**
- Similarly, **the recent slump in bonds has much to do with the reversal of positions by global investors**, who bought government debt during the first eight months of the year as recession speculation peaked, **than with the prospect of a capital flight out of haven assets into riskier ones.**

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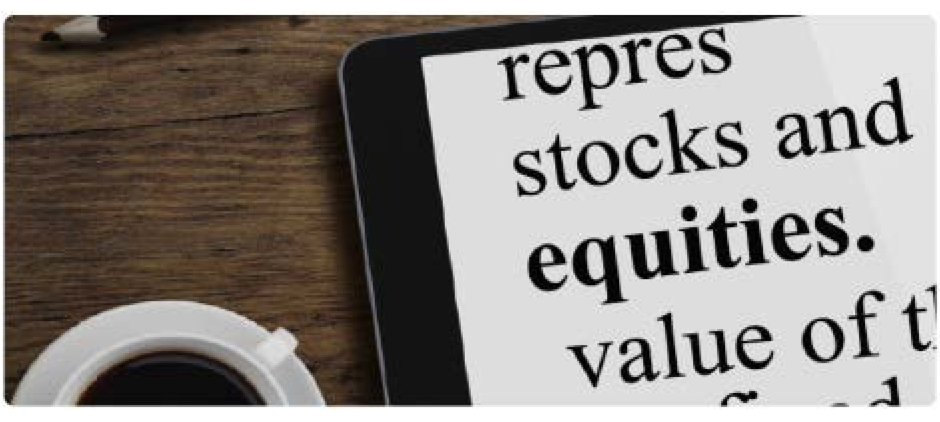
Thierry Masset, Chief Investment Officer ING Belgium

EQUITIES

The rotation towards value stocks has further to go



As the risk of a global trade war seems to have decreased, at least in the short term – a single tweet can still change the narrative -, risk-averse investors will probably need to tactically bet on lagging assets such as value stocks and reduce their exposure on less cyclical assets such as big caps, low-volatility and defensive stocks where there was some overbought conditions.

Even if the uncertainty about the impact of the current economic slowdown on upcoming results will probably continue to support quality stocks and defensive assets, the rotation towards value stocks, small caps and cyclical stocks has probably further to go. After a couple of false starts this year, value stocks are outperforming since more than two month as bond yields rise amid receding economic risks. The trend is likely to continue as investors may wish to reduce their extreme value under-exposure going into the year-end. On a fundamental basis, higher share prices for value stocks is a good sign that investors are betting the economy may be able to avoid a recession that some economist forecast may hit next year. That is the view of the optimists. The pessimists would say it only makes sense to shift into value shares with a recession looming because the earnings of those companies would be less likely to suffer.
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- **Value stocks are outperforming since more than two month**
- **Cyclical's outperformance may be short lived without manufacturing improvement.**

BONDS

The bond game isn't over yet

After a huge rally in the first eight months of the year as recession speculation peaked, the bond market has recorded a sell-off since end August on trade optimism. But even if there is a lot of incentive for investors to take risk, what bond investors should not forget about tariffs is that they are generally deemed to be inflationary. So reversing the tariffs should lessen any inflationary pressures, which is ultimately good for bonds.

After a stellar rally through August, global bonds have pulled back in recent weeks as thawing trade tensions lightened the global economic gloom, sapping demand for the safety of sovereign debt. The 10-year Treasury yield, a benchmark for world markets, climbed 0.23% to temporarily reach a three-month high (around 1.95%) as investors' animal spirits were sparked by the ebbing of the biggest headwind to global growth - the U.S.-China trade war. That might not sound like much, but it is the biggest jump since January 2018! That being said, we should not forget that the thing about bond sell-offs in recent years is that they have tended to be short-lived, thanks largely to central banks and their accommodative monetary policy. The collective balance sheet assets of the Federal Reserve (Fed), European Central Bank (ECB), Bank of Japan and Bank of England rose to 35.7% of their countries' total gross domestic product in October from about 10% before the financial crisis. And judging by some of the latest moves made by the ECB or the Fed, bond investors can be a little less worried about a lack of buyers. Although the data show that the economy may not be getting any worse, that is far different from showing it is getting much better and causing central banks to turn hawkish again.
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- **Loans replace bonds**
- **Millstone or milestone? Rising global yields could squeeze Emerging Markets bonds...**

OTHER ASSET CLASSES

Commodities hope to stay afloat

For a long-lasting increase of prices, broad commodities need the dollar to peak, which is unlikely until the U.S. stock market stops outperforming the world, and the Chinese economy to bounce, which does not appear to be on the agenda.

Commodities are another market that may be signaling that the outlook for the global economy isn't all that bad. The Bloomberg commodity index posted its first back-to-back monthly increase in September (2.3% in euro), October (1.5%), and November (0.8%) since January and February. However, multiple international organizations, such as the World Bank, aren't too optimistic the gains will continue. The World bank cut its price forecast for commodities, saying slower global growth will sap demand for energy, metals and crops. The fragility of the world's second-largest economy and the biggest consumer of raw materials is evident. China's economy slowed further in October. Investment grew at the slowest pace since at least 1998. Industrial output and retail sales growth also slowed more than expected, showing that demand continues to weaken. The data form further evidence that policy makers' efforts to brake the slowdown are falling behind the curve as the nation faces structural downward forces at home and the uncertainty clouding the trade outlook with the U.S.
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- **Investors are turning to gold with a consistency not seen in a decade.**

IN THE NEWS

The global rally in stock prices has been a "quality" rally

Quality dominates equity markets to a virtually unprecedented extent. World stocks with stable sales and earnings growth and above-average return on equity have gained 32% since the end of last year.

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Fear of missing out

What is behind the new appetite of risk? The greatest spur leading it on has little to do with politics, or the economy, or the corporate sector. Instead, it is driven by that most basic human emotion: fear of missing out.

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Arrivederci Mario

Ending his eight-year tenure as head of the ECB, Mario Draghi can leave with the feeling of a job done: holding the Euro-Area together, whatever it takes. His accommodative policy – the deposit rate is at a record-low -0.5% and quantitative easing has restarted last month with asset purchases of €20 billion a month – pulled the old continent out of recession and helped create nearly 11 million jobs.

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

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