FINALIZED NOVEMBER 20TH 2020

- Stocks jump to all-time high on Biden and vaccine optimism
- A bond market selloff remains unlikely
- Investor's attraction to commodities increases
- Trump's four years, U.S. stocks outperformed
- With Biden, IT, consumer & healthcare should be among top gainers
- Forex traders are selling havens

Dear investor,

- The final chapter on this strange year has yet to be written, and equity markets have a reputation for sometimes doing the opposite of what the consensus expects. But, at least last month, promising test results for two Covid-19 vaccines rewarded investors who kept the faith. **World stocks jumped to a record high**, and while prices look rich, the vaccine news and the Joe Biden's victory have much of investors reconsidering their earnings estimates for 2021, a development which should alleviate some worries over valuations.
- While we could still face recurring cycles of accelerating viral spread and tightening restrictions until widespread immunity is achieved, risk markets are driven by **hopes of new eco-economic stimuli and** by the Federal Reserve and other **central banks** which **are still largely trusted to keep real yields negative** by continuing to massively repurchase the public debt.
- That leaves long-term investors with little choice but to **choose stocks and corporate bonds rather than the safest sovereign bonds or cash**.

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Thierry Masset, Chief Investment Officer ING Belgium

Our latest publications on the coronavirus crisis

EQUITIES

Stocks jump to all-time high on Biden and vaccine optimism

Investors should put their cash to work as more certainty returns to the markets after Biden won the U.S presidency and as encouraging vaccine results could mean there is a tool to control the Covid-19.

The MSCI World All-Country index rallied 59% (in local currencies) since end March and jumped to a record high last month after Pfizer-BioNTech's and Moderna's interim analysis showed their vaccine prevented more than 90% of Covid-19 infections – the most encouraging scientific advance so far – and as traders pressed bets that President-Elect Joe Biden will bring steadier stewardship of the American economy. Undaunted by some of the highest equity valuations in two decades – stocks sit at more than 27 times annual earnings, a valuation with virtually no precedent since the dot-come bubble and the resurgent coronavirus –, investors started to price in the economic benefits of a vaccine, as it will provide greater certainty that governments will not need to use lockdowns to manage the virus indefinitely. Investors are also reassured by the election of Joe Biden. For markets, the current U.S. situation is rather ideal. First, it is unlikely that faced with a Republican Senate, Biden will be able to pass his tax reform. In addition, and contrary to popular belief, the desire to win the mid-term elections of 2022 could see Biden push a pro-growth and pro-employment program before any tax increase. With odds pointing to a divided government, investors saw hopes dashed that Congress would pass a multitrillion-dollar spending package to boost the economy. But bulls turned to the Federal Reserve and Chairman Jerome Powell, looking for continued support that has been critical to the rebound from the pandemic-fueled slowdown. Powell reassured markets that the central bank remains at the ready should Washington fail to deliver the aid package many agree is needed. And that buttressed markets that, given the choice between a broad package of economic aid and targeted Fed liquidity support, would always choose the latter due to its benefits for asset prices.kets than who actually wins the vote.

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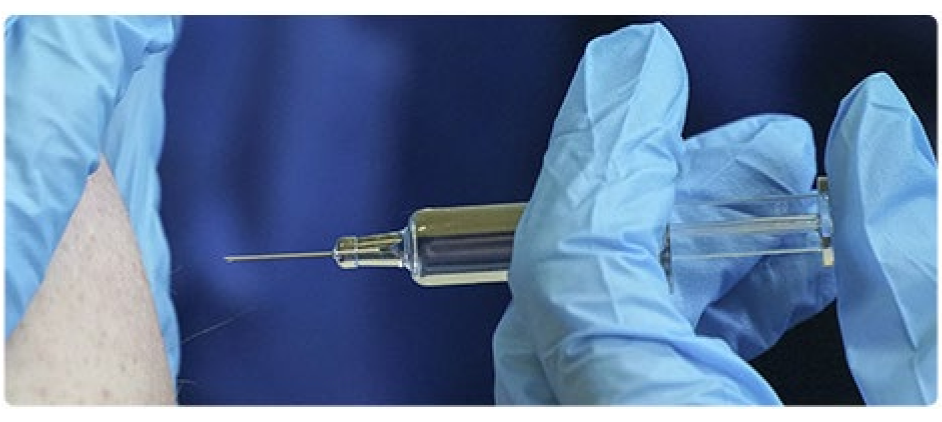
BONDS

A bond market selloff remains unlikely



Bond markets are showing tepid enthusiasm at the latest vaccine advance as they are more concerned about near-term pandemic challenges than the putative economic boost from a potential vaccine. From mid-October, the data show the start of a double dip as several advanced economies fell victim to the impact of a resurgence in the rate of Covid-19 infections and second lockdowns. A large bond market selloff remains unlikely as the "post- Covid" recovery might still be quite long and as global disinflationary forces are likely to keep central banks dovish.

Bond yields increased - the 10-year Treasury yield doubled in the past three months to almost 1% - after Pfizer & BioNTech and Moderna announced "extraordinary" results for their experimental vaccine. But this jump in bond yields seems unsustainable because it will take months for any vaccine to be applied to a large population and the intensifying pandemic will reinforce prior disinflationary trends. Some of the world's top central bankers have warned the global economy will still need support this year and next to weather the coronavirus crisis even if a successful vaccine is found as the near-term outlook will remain dominated by rising infections and new lockdowns. Without aggressive fiscal stimulus now, the danger is that economies develop deep scars that hobble growth over the longer term. That is why central banks have no choice but to stay accommodative. Monetary policy and fiscal policy are now interdependent and bond yields will have to remain low to allow governments to finance themselves at the lowest cost.

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OTHER ASSET CLASSES

Investor's attraction to commodities increases

Flows into natural resources has soared in recent months, because the sector is seen as a good hedge against inflation. This trend is likely to continue as governments and central banks pump stimulus to prop up Covid-battered economies. Industrial and precious metals are expected to outperform oil.

The recovery in global raw materials since the dark days of March has been sufficiently powerful that, despite the still- rampant pandemic, the Bloomberg Commodity Spot index has increased by 13.5% (in euro) since mid-March. The upswing has many drivers: a resilient China, soaring food costs, massive stimulus and, increasingly, hopes for an effective vaccine. Investors' attraction to commodities can also be explained by a bearish-dollar outlook on ultra-loose Federal Reserve policy. As basic resources are priced in dollars, a weaker greenback tends to buttress demand from holders of other currencies. As global spending on green infrastructure are set to increase in the U.S., Europe and China, this environment should particularly fuel industrial metals demand, while negative real yields and unprecedented liquidity by central banks and governments will be the main drivers to sustain gold prices.

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IN THE NEWS

Trump's four years, U.S. stocks outperformed

During the Trump presidency, U.S. equities strongly outperformed other major stock markets, spurred by tax cuts and the surge of the technology sector. Chinese equities were the biggest laggards among the main regions during the past four years, hurt in part by trade tensions between the U.S. and China. European equities, lacking bellwether tech stocks, have also trailed.

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With Biden, IT, consumer & healthcare should be among top gainers

With Joe Biden winning the U.S. presidency but control of the Senate still up in the air, investors in stocks have been forced to review their outlook for some key industries… Technology, consumer and healthcare sectors seem to be better positioned than stocks in more cyclical industries such as banks and energy.

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Forex traders are selling havens

Currency markets are back in the spotlight for investors punting on the global economic outlook after the pandemic. Given the progress in developing an effective coronavirus vaccine, risk appetite is making a strong comeback. It is driving trade-sensitive currencies, while havens like the Japanese yen and the Swiss franc are feeling the heat. EUR/USD should head towards 1.25 next year and weaker dollar dynamics should lift cyclical currencies in both the G10 and Emerging Market worlds.

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

ING Belgium SA - Avenue Marnix 24, 1000 Bruxelles