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- 2019 was all about the central banks
- The bond market give the Fed the benefit of the doubt
- China is deflating commodities
- Greek stocks get out of the doldrums
- "Renewable" projects should generate competitive returns
- Stock allocation to ESG funds have increased sharply

Dear investor,

- **Is the growing gap between an economy losing momentum, due to trade tensions and (geo)political uncertainty, and stock markets that do not seem to want to bring an end to their longest rally in history tenable?** That is the question that must be answered by investors as they are about to plan for the new year.
- **Stock markets are more than ever walking a tightrope.** To justify their high valuations (they are roughly 20-25% more expensive than the historical average of the different valuation criteria), companies need to generate earnings growth of more than 15%. This is significantly more than the already optimistic expectations (around 10%) of analysts!
- This is the reason why we consider it is better to continue to give priority in the portfolio to **"high-quality" stocks** which have been the big winners in 2019 (with a gain of 34% in euro).

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Thierry Masset, Chief Investment Officer ING Belgium

IN THE NEWS

Greek stocks get out of the doldrums

Greece, the world's top market by far, rebuilds from crisis. The country's shares have climbed 42% last year and that could open the door for Greece to be included in the European Central Bank's new round of quantitative easing, usually a catalyst for wider asset reflation.

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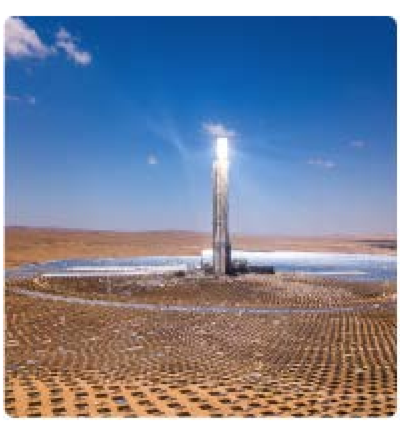
"Renewable" projects should generate competitive returns



Two third of the global population live in a country where either onshore wind or utility-scale photovoltaic, if not both, is the cheapest option for new bulk generation. This means that, to meet a rising electricity demand or to replace an old, retiring power plant, it is now cheaper to build a solar or wind farm than to install a new-build fossil fuel power plant.

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Stock allocation to ESG funds have increased sharply

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Environmental, Social and Governance (ESG) factors now form a crucial component of fundamental analysis, which means companies need to adapt to increasing scrutiny from customers to ultimately become the source of long-term returns for investors. Over the past 12 months, ESG equity funds were the second-most popular asset class after U.S. government bonds, with 28% of asset inflows.

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

EQUITIES

2019 was all about the central banks

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The fresh flow of money from the developed world's central banks has allowed stock markets to set fresh highs in 2019. But that must not disguise the fact that the disconnect between financial markets and the real economy is becoming more pronounced.

All 2019's biggest trends — from negative 10-year interest rates in Germany (-0.30%) through the impressive rebound in world share prices (+25% in euro) — can be explained by the actions of central bankers. Many will find this rather depressing. Approaching the end of an exciting year for world markets, it is tempting to rely on a narrative of geopolitical intrigue and trade wars. But it is far simpler and more accurate to explain 2019's events in terms of the liquidity that the central banks have unleashed. The year started with the developed world's central banks trying to dry up liquidity and return to normality after the crisis years. Since then, there has been a 180-degree turn. Provision of liquidity has accelerated faster in the past few months than at any time since the first desperate days after the 2008 Lehman Brothers bankruptcy. And that has allowed U.S. stock markets to set fresh highs, and extend what is their longest rally (+400%, in euro, since March 2009). Yet there is much to suggest that not all is well with the global economy. Data from China, Germany, and Japan suggest that the slowdown is still ongoing, even if its pace has become less severe. While the US and China may agree to a truce, the ongoing decoupling of the world's two largest economies will almost certainly accelerate again after the US election next November. In the medium to long term, the best one can hope for is that the looming cold war will not turn hot. Furthermore, central banks are reaching the limits of what they can do to backstop the economy, and fiscal policy remains constrained by politics and high debts.

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- **Emerging Markets can power world economy with interest rate cuts.**
- **Quality stocks perform best during periods when profits growth decelerates.**

BONDS

The bond market give the Fed the benefit of the doubt

A year ago, the world bond markets began to fight the Federal Reserve. Only now does it appear that they have reached a truculent truce. They seem to want to believe Jerome Powell when he says that the three successive rate cuts made in 2019 are nothing more than a "mid-cycle adjustment."

The consensus on the bond market is that the Fed is likely to keep its accommodative stance by the end of 2020 and that there won't be a U.S. recession by then either. That explains why the Bloomberg Barclays Global Investment Grade (sovereign & corporate) Bond index has lost some ground since end August (around -1.5%). Despite this drop, the safest bonds had a good year in 2019 with an average return of 6% (in euro). And they still have many reasons to continue to perform. Unpredictable domestic and geopolitical risks along with a push for populist policies that weaken institutions, help slow growth and boost the risk of economic and financial shocks. And judging by some of the latest moves made by central banks, bond traders can be a little less worried about a lack of buyers. Even if the world is awash in debt - global debt is seen expanding to $255 trillion by the end of 2019, at a lofty 320% of global GDP - , yields show there seems to be a dearth of it for bond investors because of massive purchases by central banks. As of October, the collective balance-sheet assets of the Federal Reserve, European Central Bank, Bank of Japan and Bank of England stood at 35.7% of their countries' total GDP, up from about 10% before the financial crisis of 2008.

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- **There is yet no sign that the four-year rally in Emerging Markets debt is over.**
- **The long-investment grade bonds are on track for their best annual returns since 1995 (+22%).**

OTHER ASSET CLASSES

China is deflating commodities

The Chinese economic slowdown, high-stakes U.S.-China trade war, efforts by governments and businesses to fight climate change, and central bank policy-making are some of the big issues that will shape raw material markets in 2020.

Despite the U.S.-China trade war and other geopolitical concerns - the Turkish offensive in Syria, the marches in Hong Kong, the Argentinian fiscal crisis, or the U.K.'s Brexit -, the gains have been broad-based on the commodity market in 2019, with the energy (+28% in euro) and industrial metals sectors (+17% for precious metals and +4.5% for industrial metals) all rising. But prevailing wisdom holds that if the world's biggest buyer of commodities - China - decreases buying due to slower economic growth, it should only be natural for materials prices to fall. That is precisely what has been observed in recent years: commodity prices fell 55% (in USD) since end April 2011, while the value of the Asian nation's goods and services decreased by 41%, creating downward momentum for gross domestic product that it may not be able to reverse. The state-run economy still need an unusual shot of stimulus in order to sustain growth and, by extension, commodity prices! Furthermore, climate change and efforts to tackle it will dominate the investment agenda in 2020 as never before, and that push carries vast implications for commodities, especially energy.

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- **Accelerated gold purchases by central banks are unlikely to end.**
- **OPEC supply will need to drop to balance the market in 2020 given weak demand.**
- **Nickel's rally is fading fast with signs of faltering demand.**

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