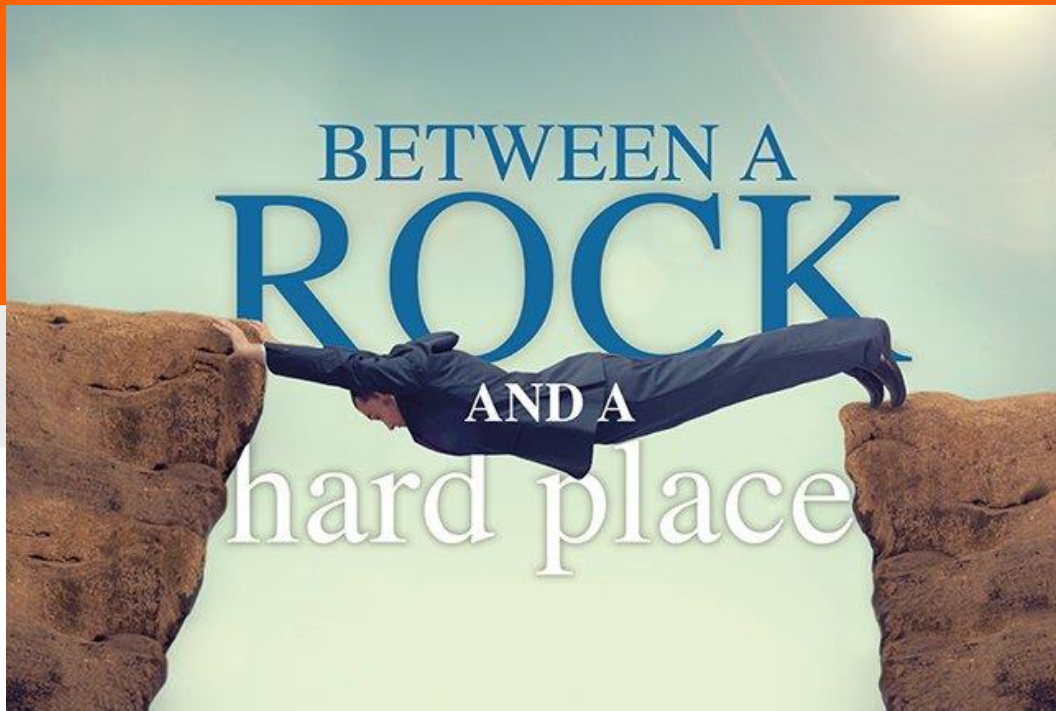


# 1H20 Financial Market Outlook



Steven Vandepitte  
Sr. Strategist

Brussels • December 10, 2019

thinkforward

# Mind the gap

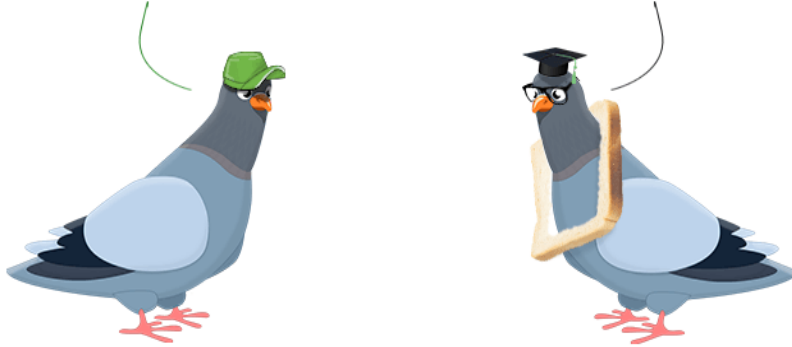
The economy



The stock market

what are other words for damp squib?

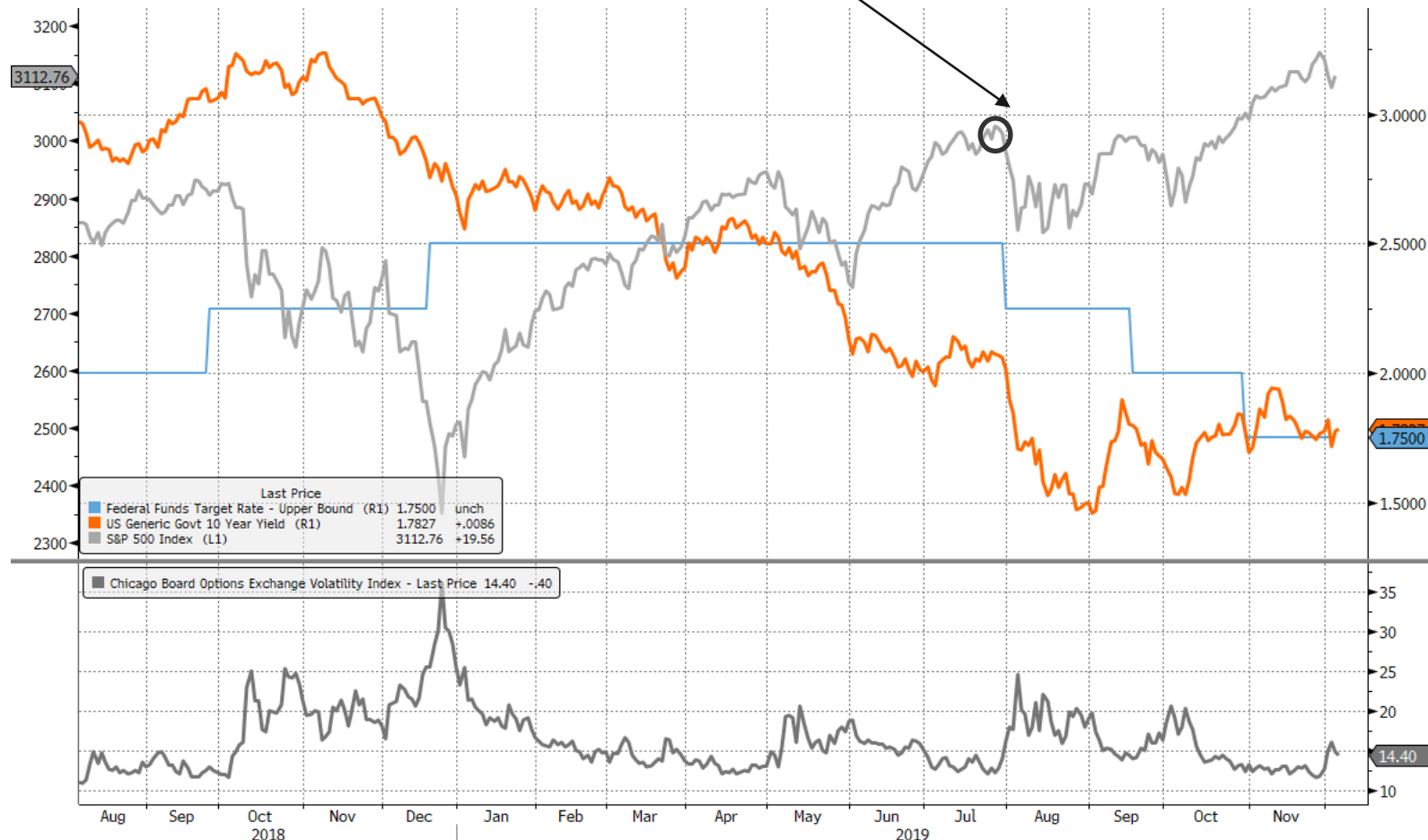
dud, anticlimax, flop, failure, washout, fiasco, disappointment, fizzle, letdown, setback



Thesaurus.plus



# The Fed blinked a second time WITHOUT a market riot preceding

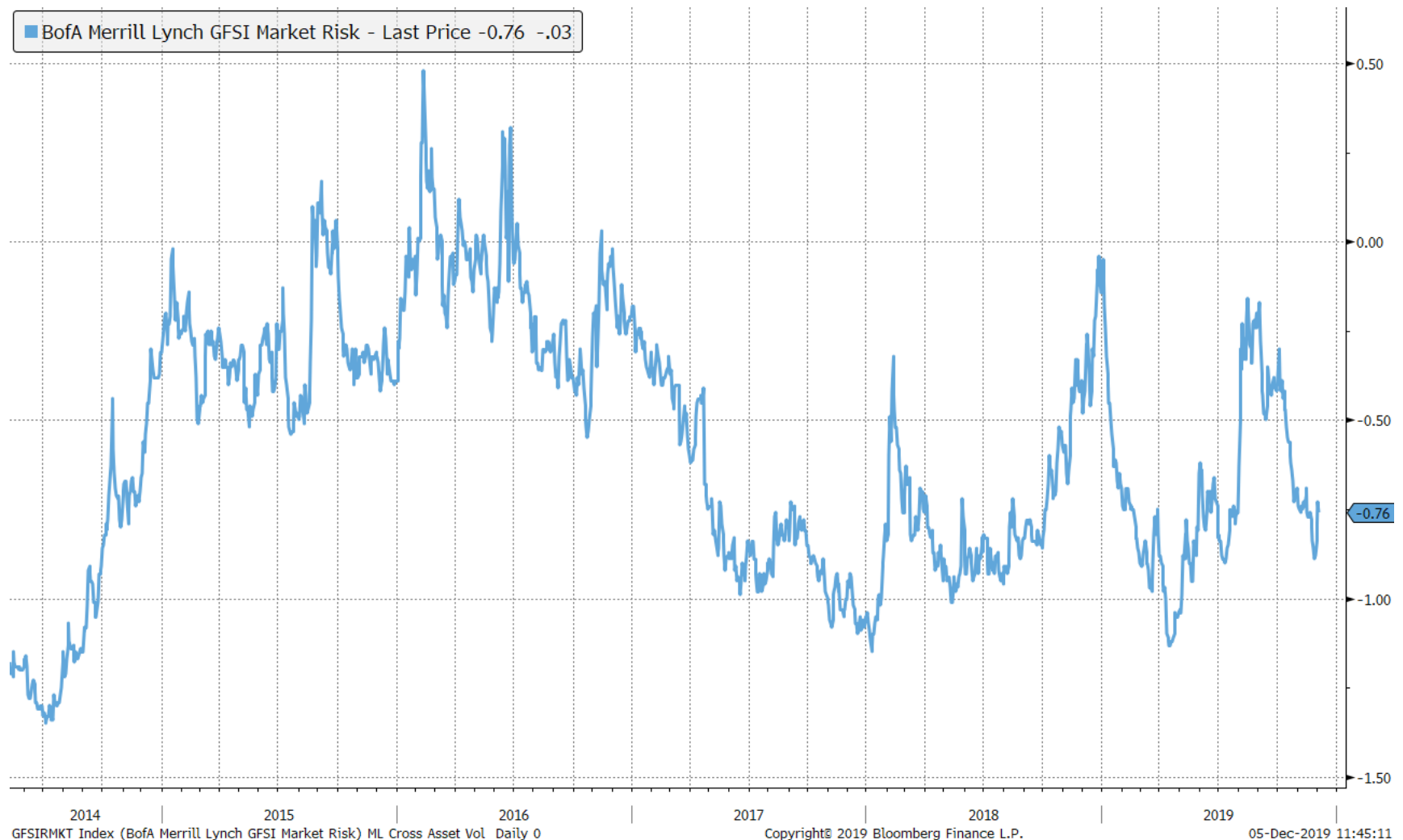


FDR Index (Federal Funds Target Rate - Upper Bound) Fed, rates, stocks,vix Dai

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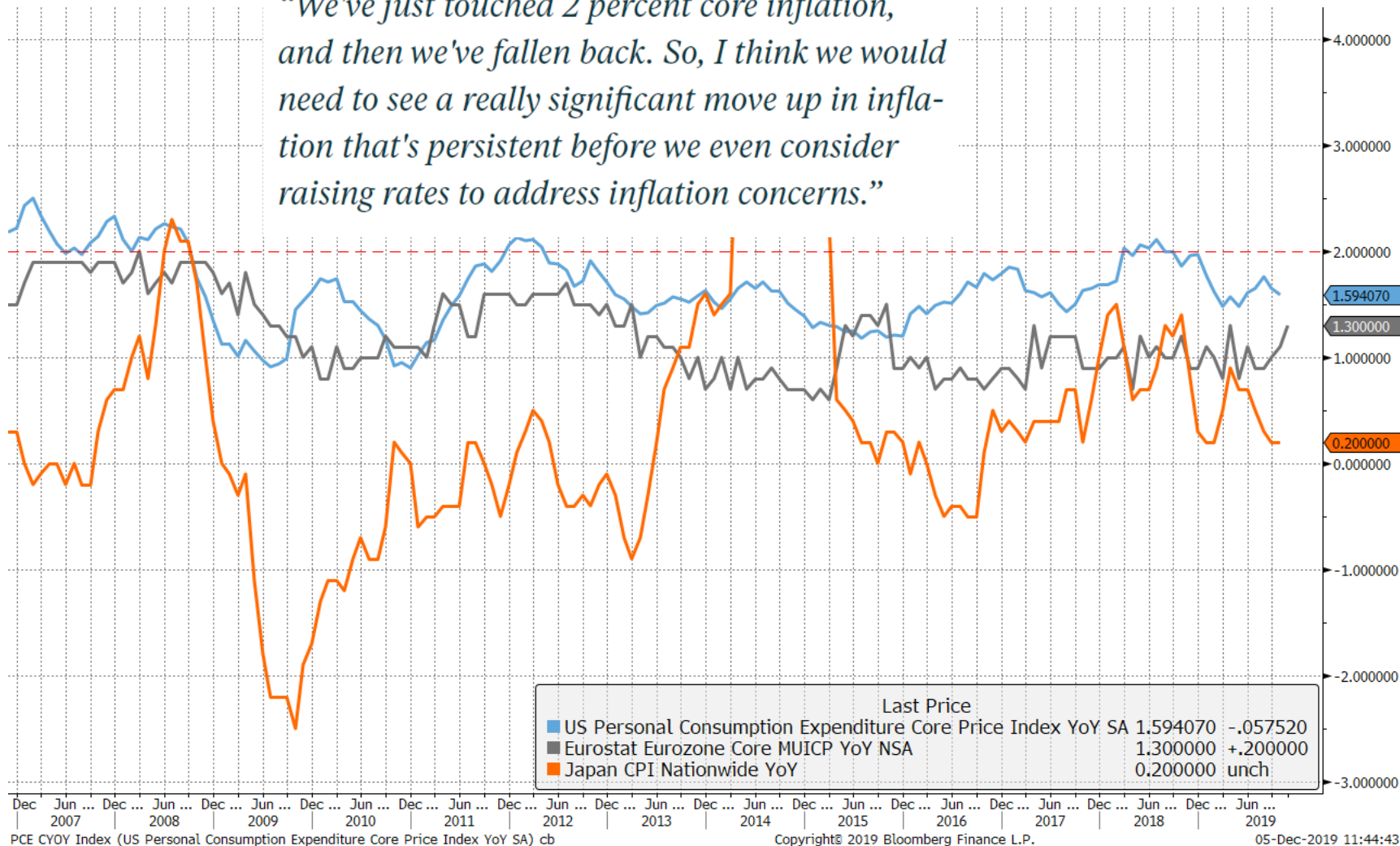
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# Nice 'n Easy : central bank liquidity provision soothes investors' nerves



# Low inflation provides perfect cover for central banks to remain supportive

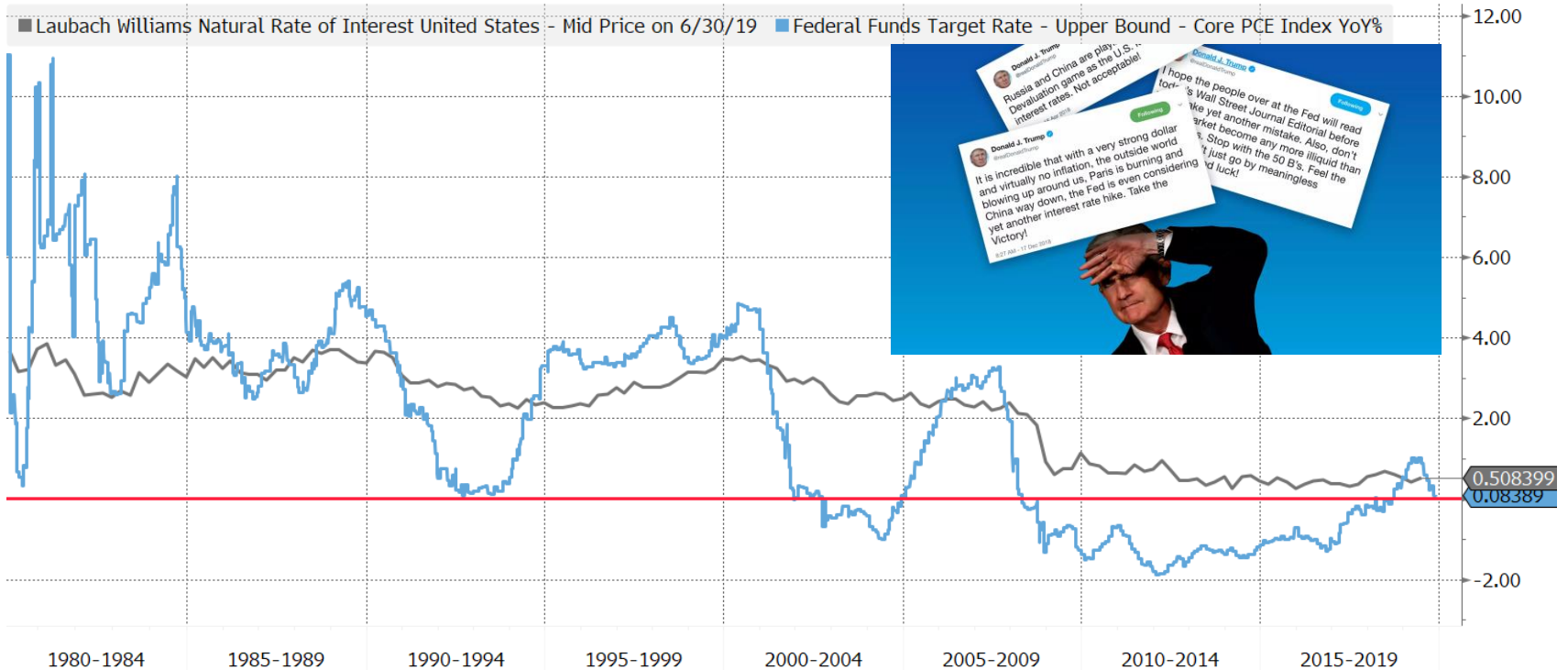
*“We’ve just touched 2 percent core inflation, and then we’ve fallen back. So, I think we would need to see a really significant move up in inflation that’s persistent before we even consider raising rates to address inflation concerns.”*



# If bull markets are 'murdered' by a restrictive Fed, Powell quickly retreated this time around

## Better safe than sorry

The Fed funds rate is safely back below  $r^*$ , the rate where it's neither stimulative nor restrictive



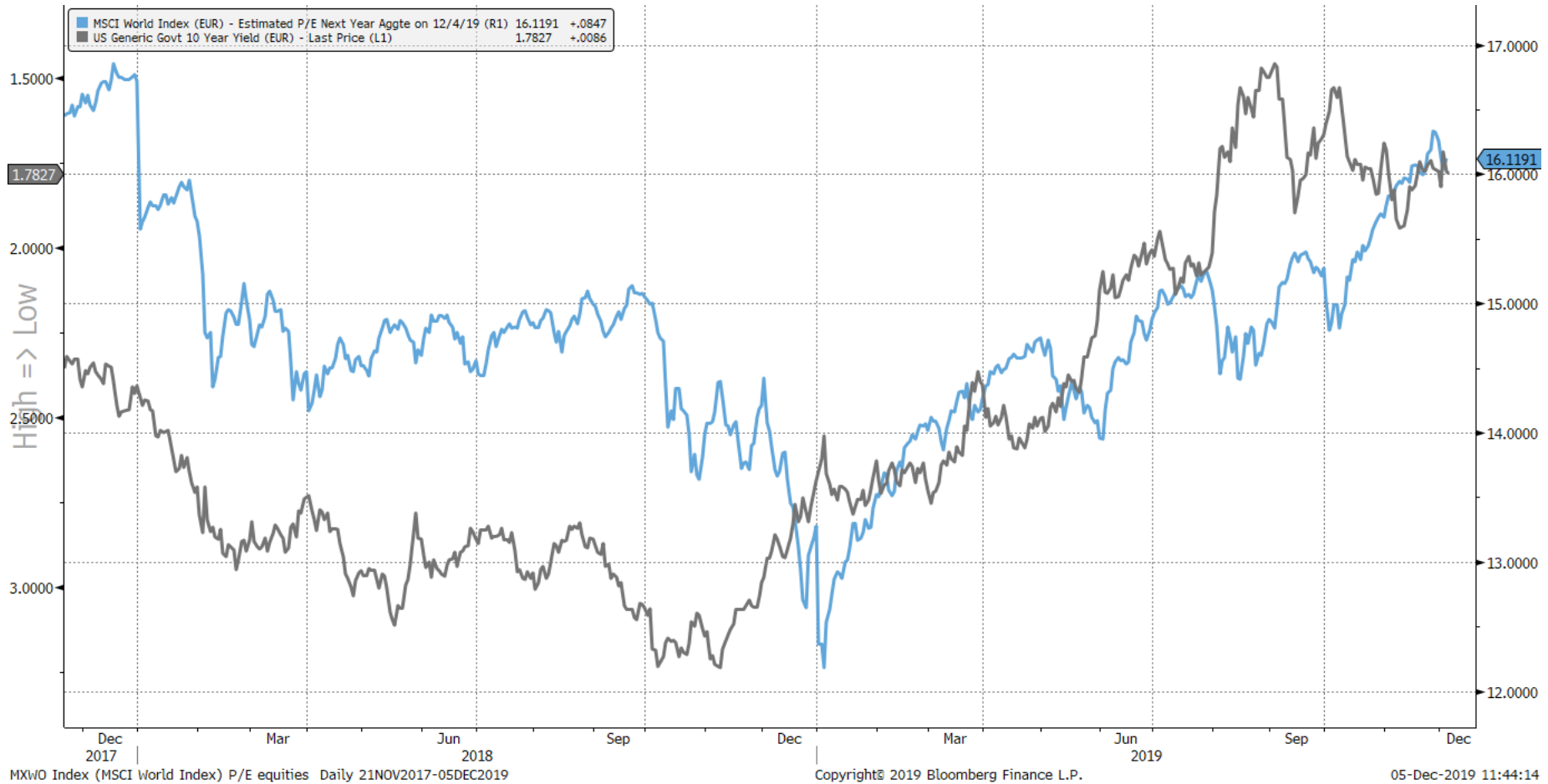
Source: Federal Reserve, Laubach-Williams, Commerce Department

USNRUS Index (Laubach Williams Natural Rate of Interest United States) Natural R

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26-Nov-2019 10:22:29

# Equity markets are apparently priced off low rates



# Market expectations for future rates

## Manage expectations



Source: Bloomberg

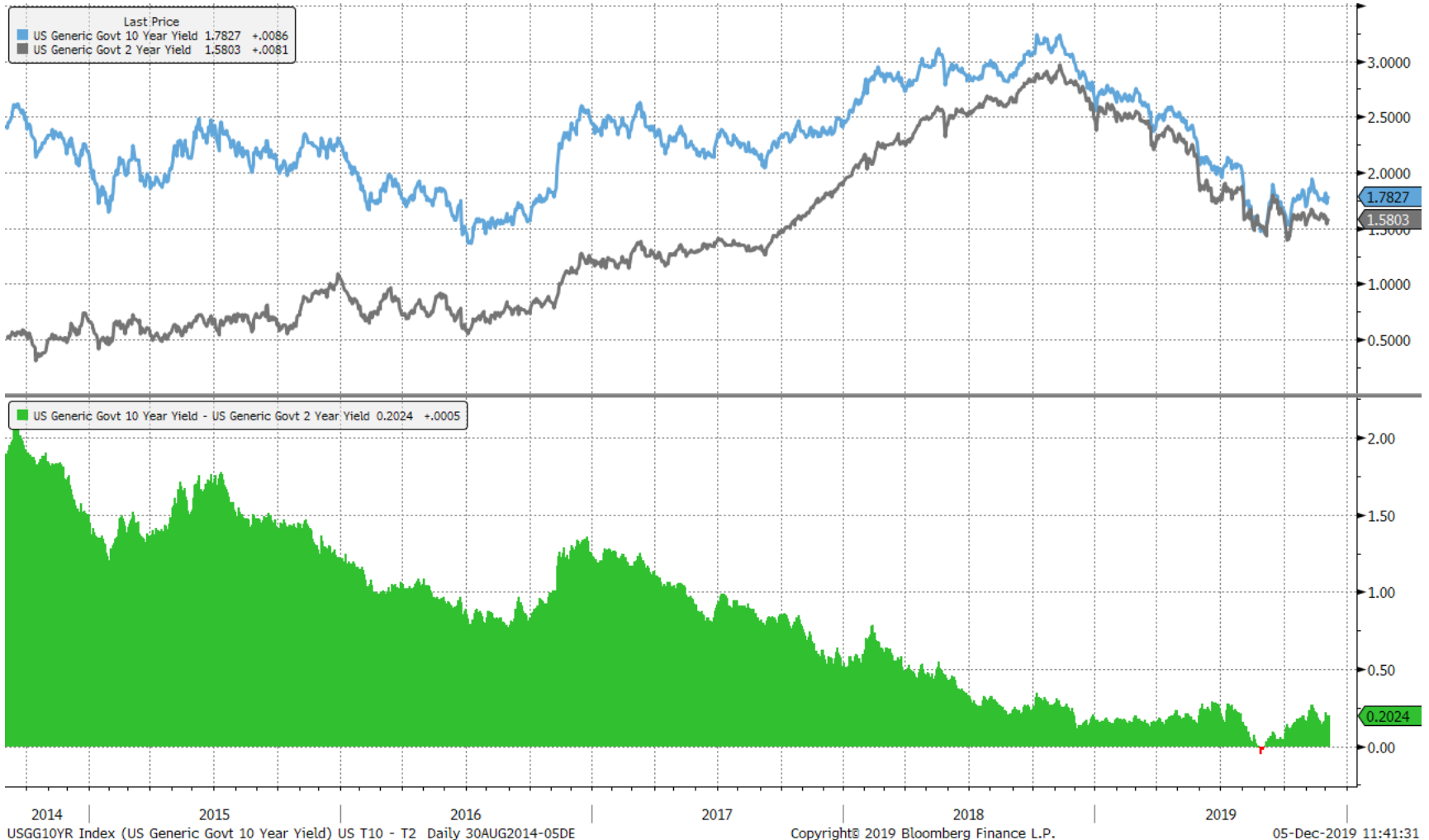
FFZ9 Comdty (FED FUND 30DAY Dec19) Fed funds pricing Daily 26FEB2018-05DEC20

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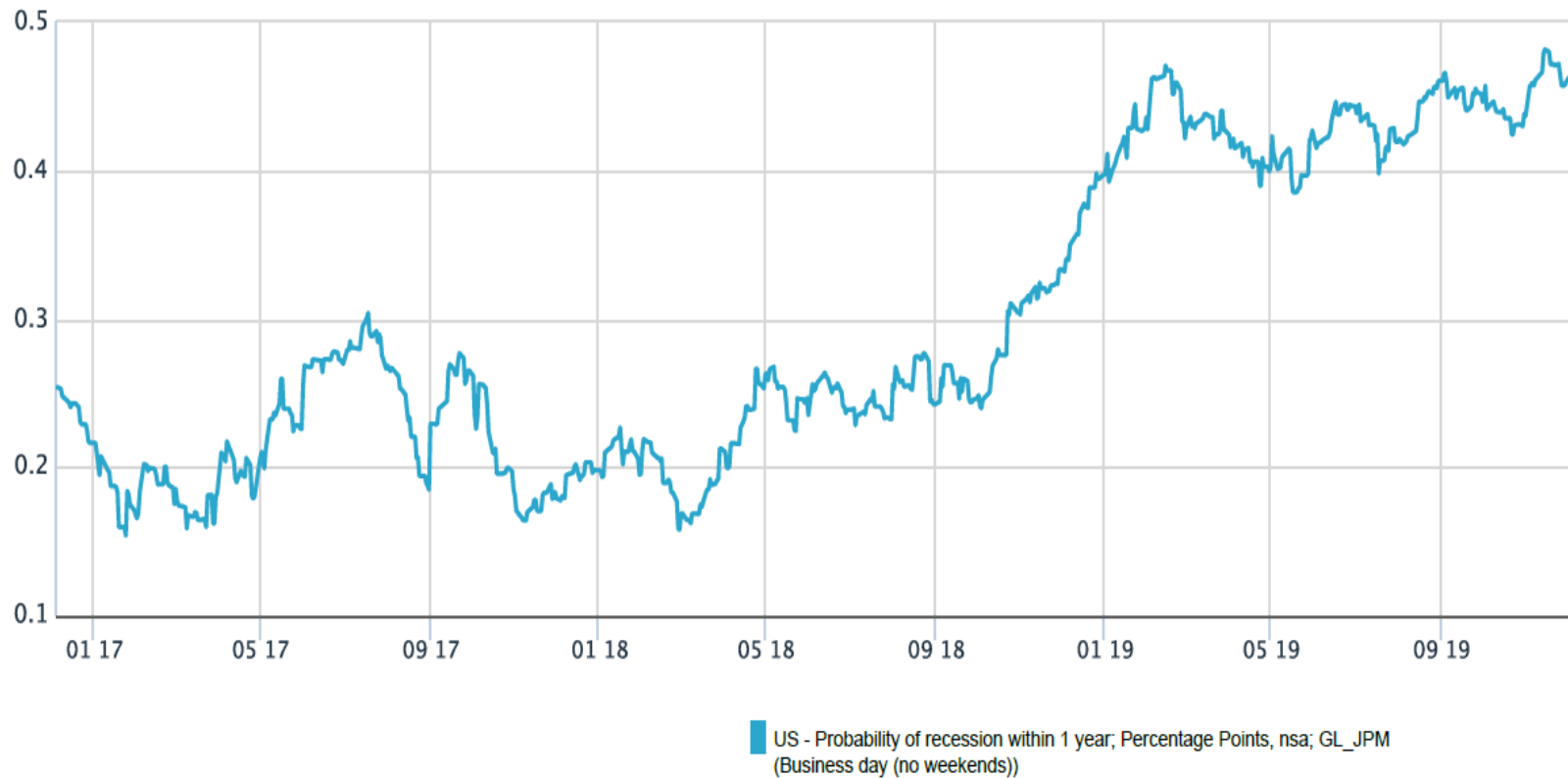
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# Yield curve inversion (and manipulation?): is this time different?



# Factor-based probability of a U.S. recession



Source : Morganmarkets, ING

# Master & Servant : markets are leading central banks

Recession	Key contributors to NBER-dated U.S. recessions				
	Industrial	Oil shock	Monetary	Financial	Fiscal
Aug 1918					
Jan 1920					
May 1923					
Oct 1926					
Aug 1929					
May 1937					
Feb 1945					
Nov 1948					
Jul 1953					
Aug 1957					
Apr 1960					
Dec 1969					
Nov 1973					
Jan 1980					
Jul 1981					
Jul 1990					
Mar 2001					
Dec 2007					
???				????	

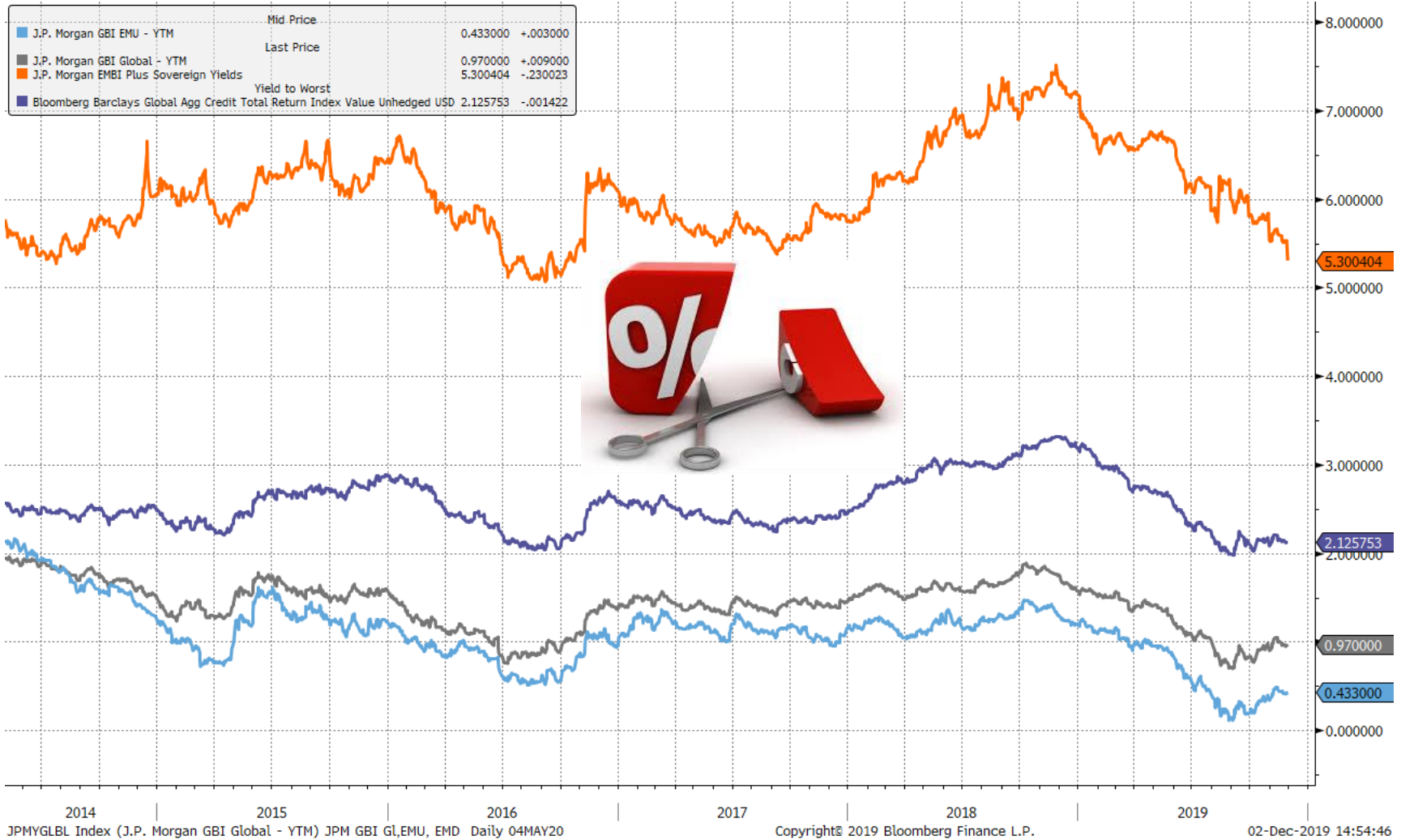
Source : NBER, GS, ING

# The trouble with saying goodbye to the bull market too early

START DATE	END DATE	% CHANGE	LENGTH IN DAYS	CAGR			
				FULL PERIOD	LAST 10%	LAST 15%	LAST 50%
10/7/66	11/29/68	48%	539	20.1%	42.0%	41.9%	15.7%
5/26/70	1/11/73	74%	666	23.2%	39.3%	21.4%	15.0%
10/3/74	11/28/80	126%	1,556	14.1%	70.3%	33.0%	14.6%
8/12/82	8/25/87	229%	1,274	26.5%	41.3%	54.6%	27.7%
12/4/87	7/16/90	65%	659	21.0%	33.5%	37.4%	20.0%
10/11/90	3/24/00	417%	2,389	18.9%	16.4%	27.8%	24.3%
9/21/01	1/4/02	21%	72	97.2%	137.7%	79.6%	39.3%
10/9/02	10/9/07	101%	1,260	15.0%	18.3%	14.7%	11.7%
3/9/09	<b>8/7/18</b>	<b>323%</b>	<b>2,373</b>	<b>16.5%</b>	TBD	TBD	TBD

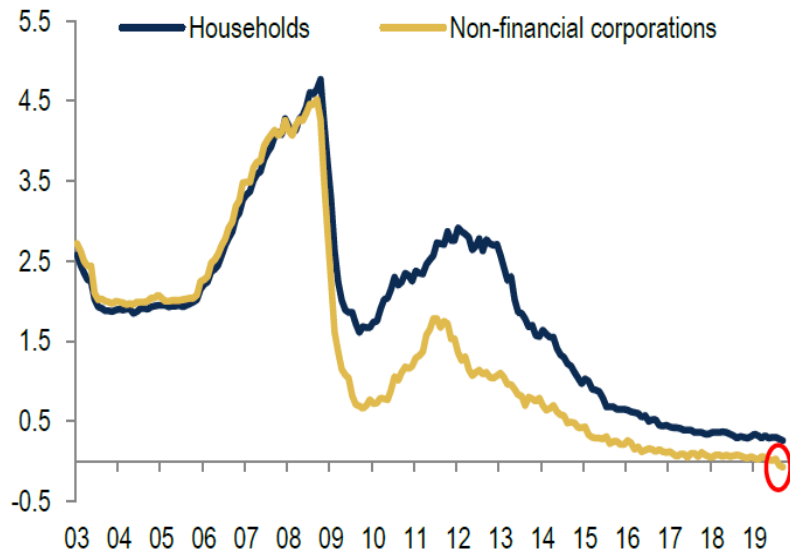


# Show me the yield



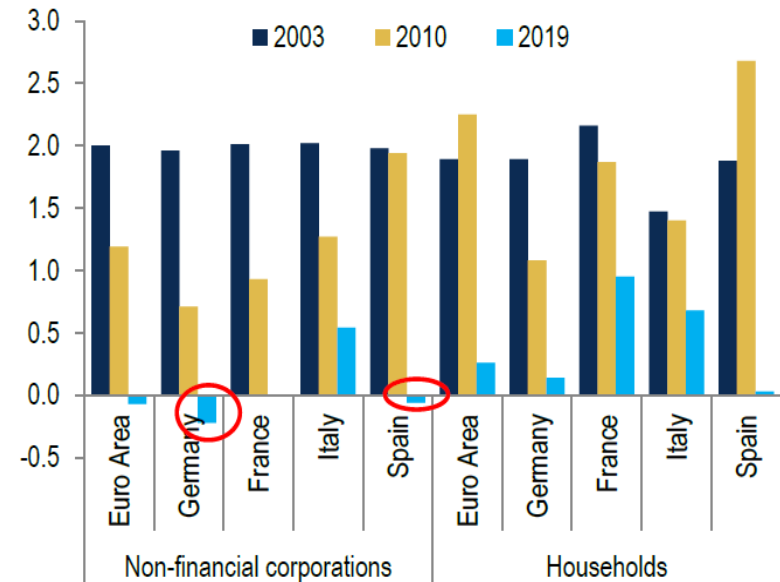
# ECB financial repression makes people do the NIRP dance

**Chart 10: <1yr corporate deposits rates in Euro Area now negative (%)**



Source: BofA Merrill Lynch Global Research, ECB. %.

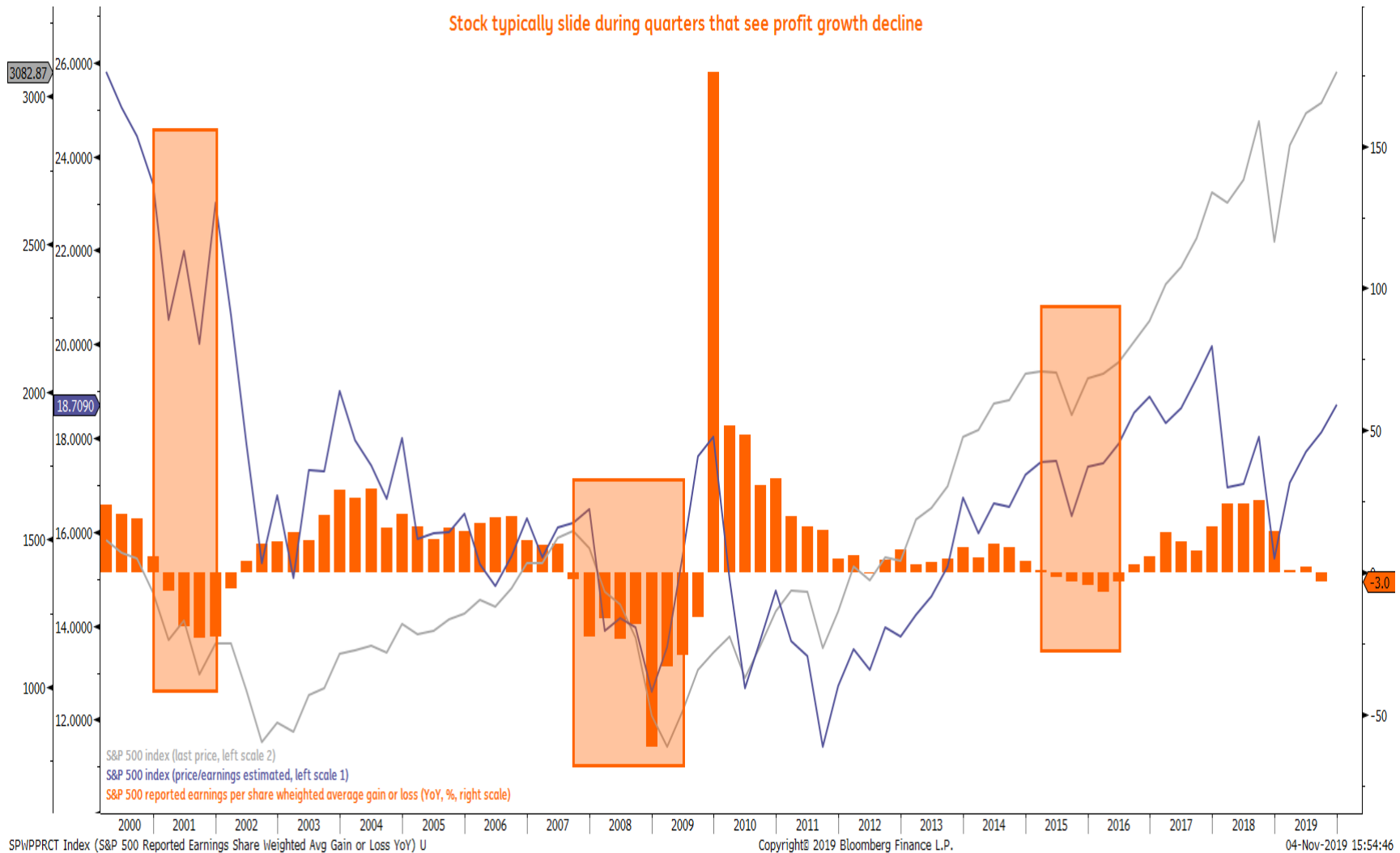
**Chart 11: Deposit rates by European country (%)**



Source: BofA Merrill Lynch Global Research, ECB.

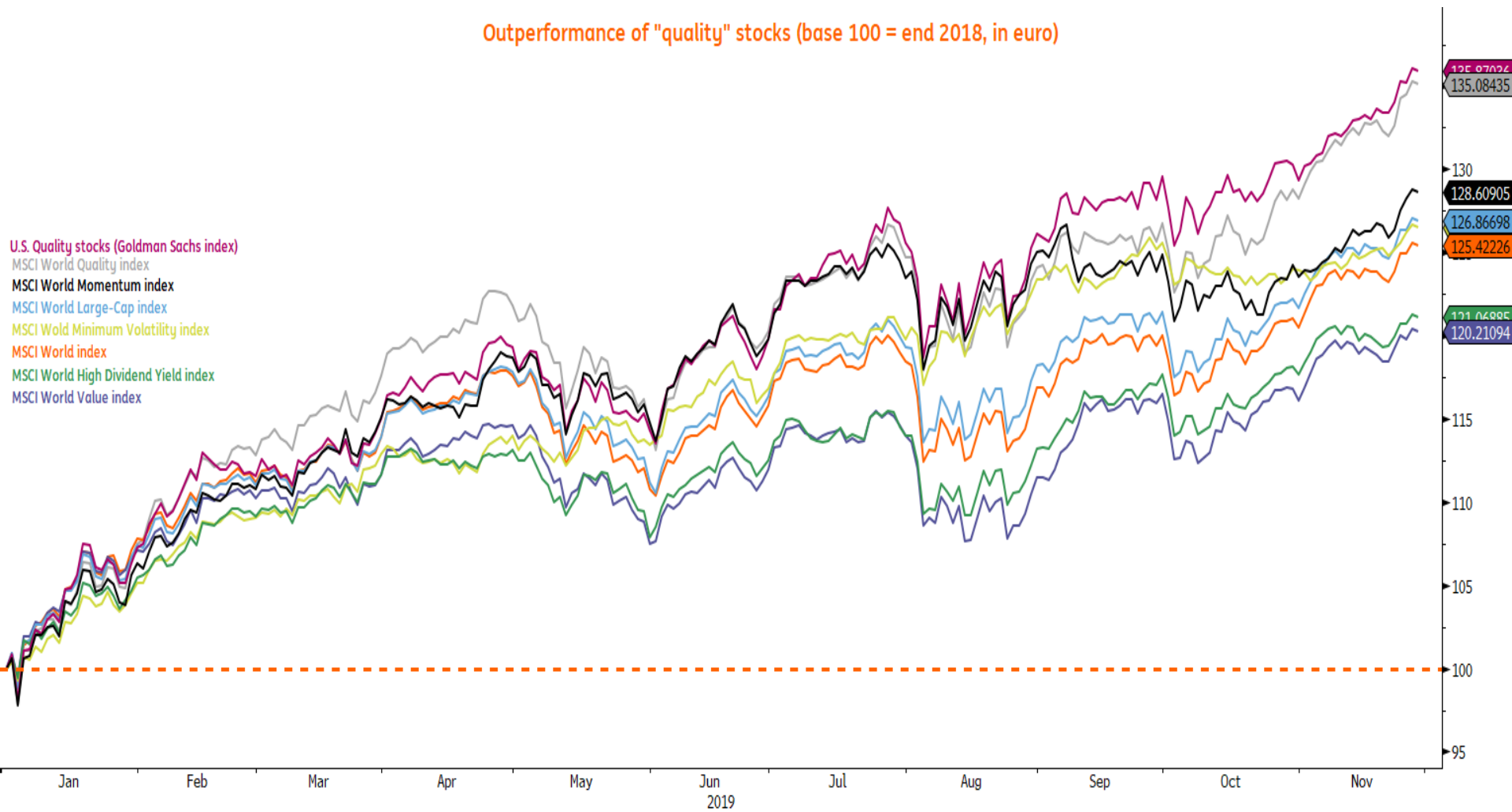
# Wall Street and earnings ... but where's the surprise?

Stock typically slide during quarters that see profit growth decline



# The global rally has been a 'quality' rally...

Outperformance of "quality" stocks (base 100 = end 2018, in euro)



MXIWOQU Index (MSCI World Quality Price USD Index) quality vs Daily 31DEC2018-28

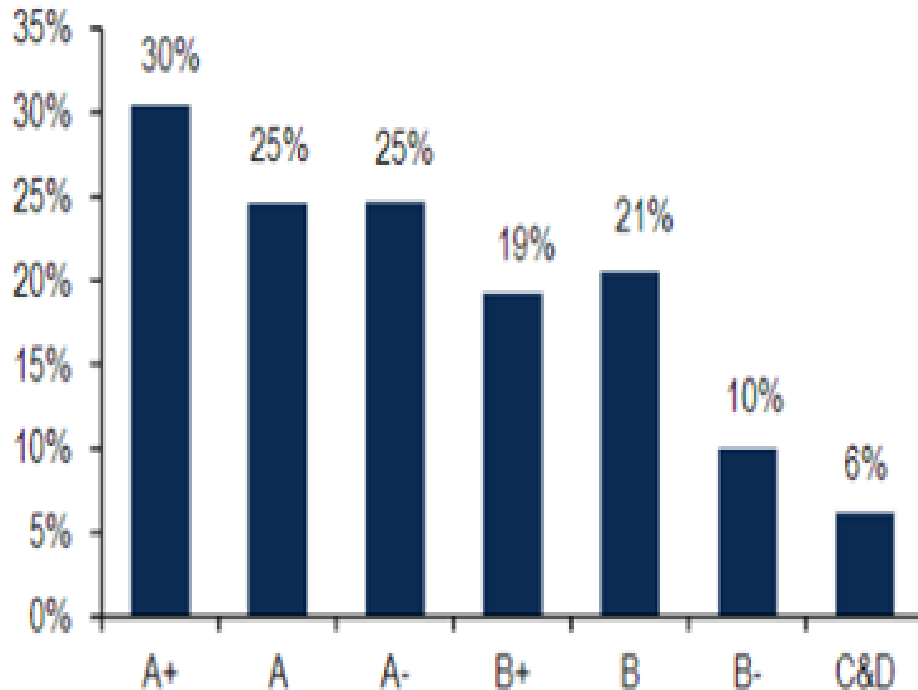
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# ... and that should still be the case in 2020...

Average performance by S&P 500 quality stocks when the profits cycle decelerated (last seven cycles, 1988-present)



Source: BofA Merrill Lynch US Equity and Quant Strategy, S&P

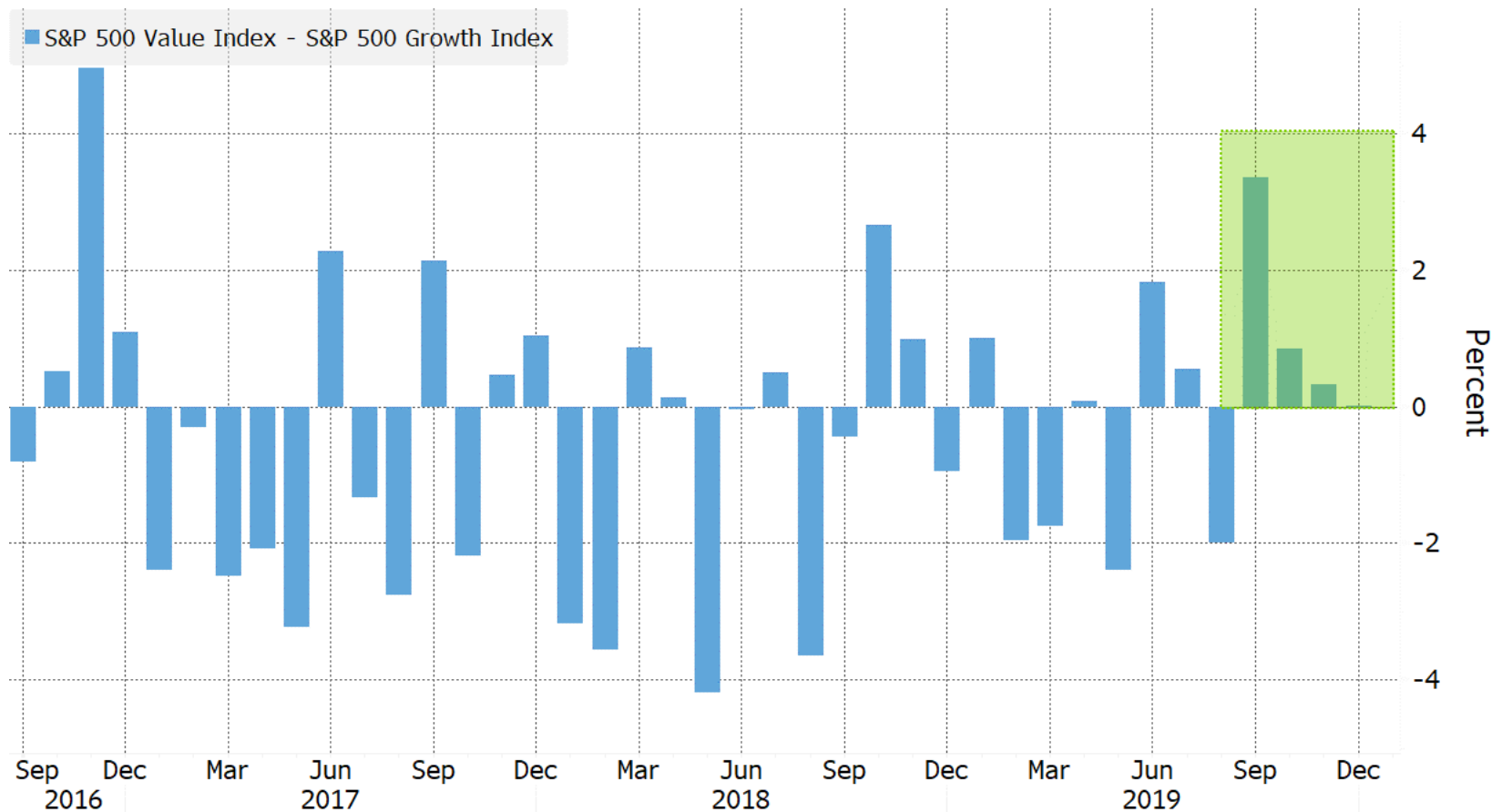
Note: ratings of US stocks between A+ and D



# Value finally finding its footing vs growth...

## Change of Pace

Value gauge on track to beat growth for 4th consecutive month?



Source: Bloomberg

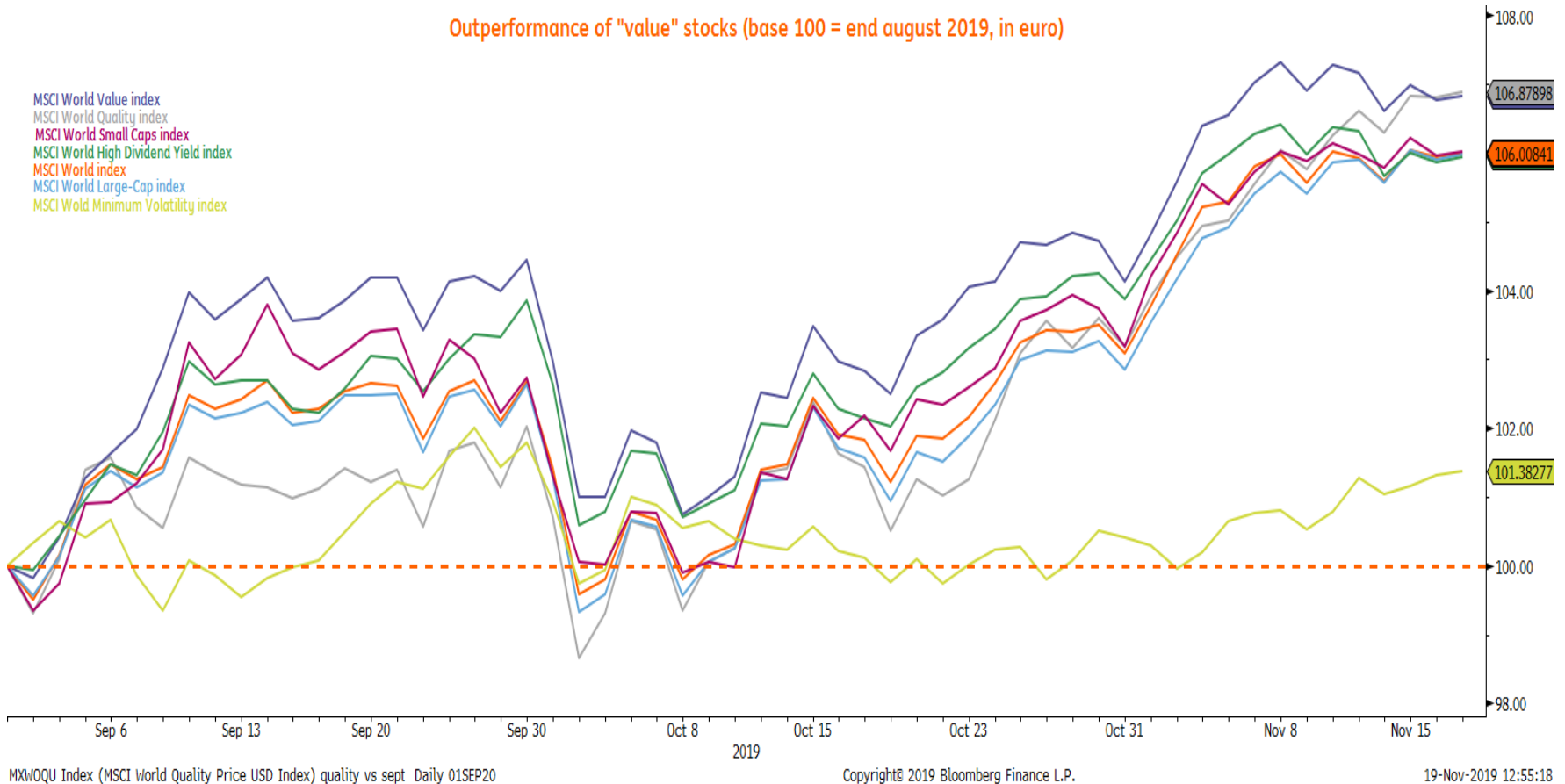
SVX Index (S&P 500 Value Index) Value-Growth Monthly Monthly 01SEP2016-05DEC201

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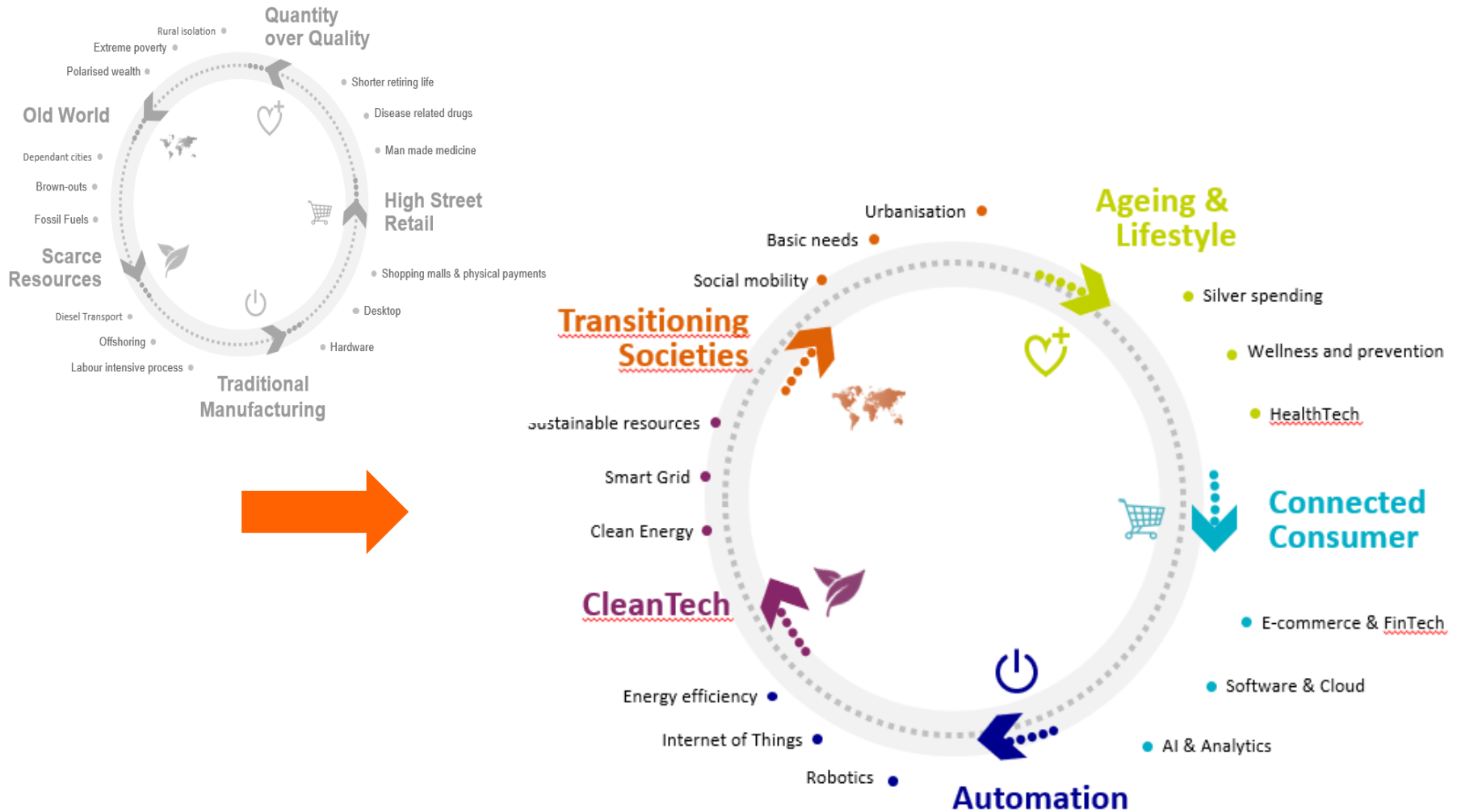
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# ... and the rotation towards value stocks could have further to go!

Outperformance of "value" stocks (base 100 = end august 2019, in euro)



# Where the LT opportunities lie : disruptive trends



# 'Old vs Evolving Economy ' and the Stock Market's potential return

## Fundamental ratios (30/06/2018)

Valuation	Evolving Economy	Old Economy
Dividend Yield (%)	2.1	2.6
Price to Earnings	18.8	15.4
Price to Sales	1.9	1.3
Price to Book	2.6	1.8
EV/EBITDA	12.6	10.4
PEG Historic	2.0	1.7

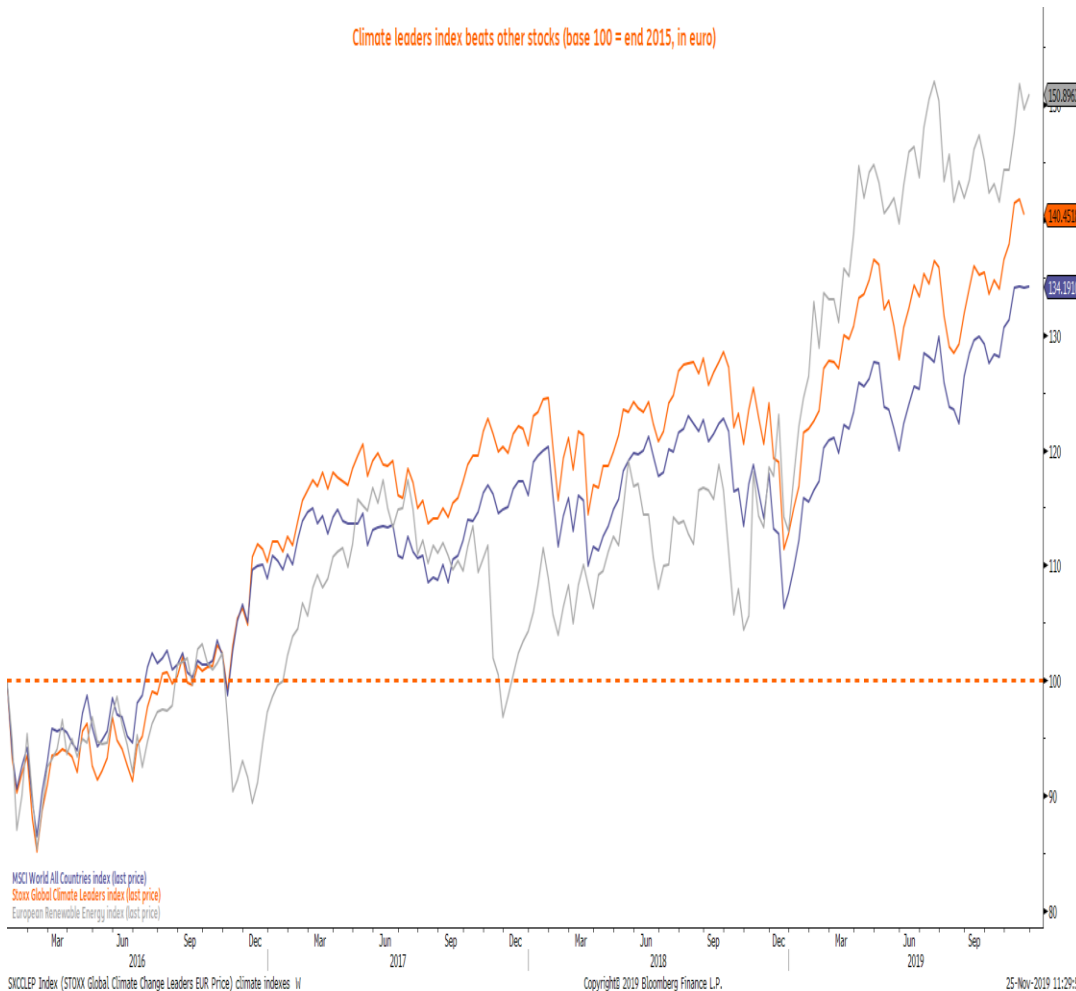
Growth	Evolving Economy	Old Economy
ROE	16.1	13.2
ROIC	11.2	8.8
Income to Sales	13.6	11.4
Hist 3 Year Sales Growth	7.9	3.7
Hist 3 Year EPS Growth	9.5	9.3
Debt/Equity	32.4	61.7

Source: Factset, AXA, ING

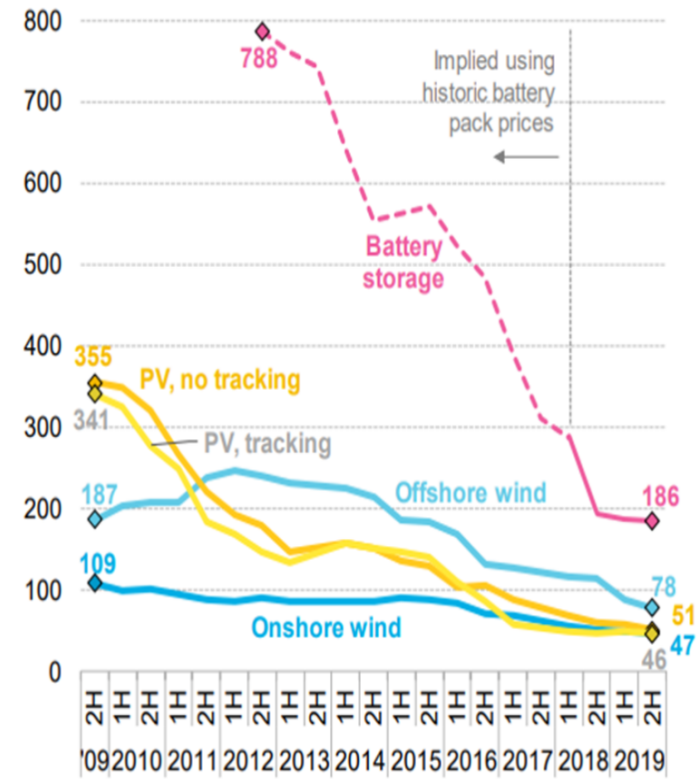
# Some long-term investment themes (1)

- “Renewable” projects should generate competitive returns

Climate leaders index beats other stocks (base 100 = end 2015, in euro)



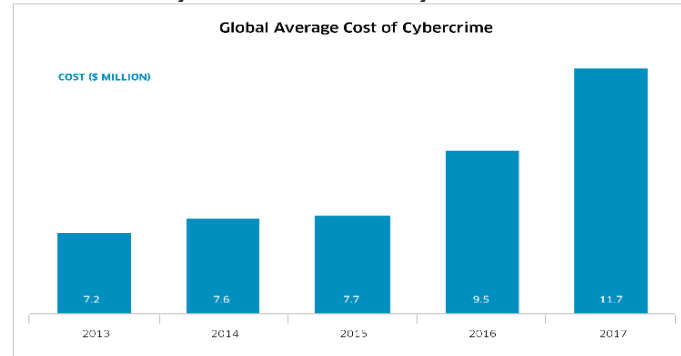
Cost of electricity for photovoltaic (PV), wind and batteries (\$/MWh)



Source: Bloomberg. Note: The global benchmark is a country weighted-average using the latest annual capacity additions. The storage COE is reflective of a utility-scale Li-ion battery storage system with four-hour duration running at a daily cycle and includes charging costs assumed to be 60% of wholesale average power price.

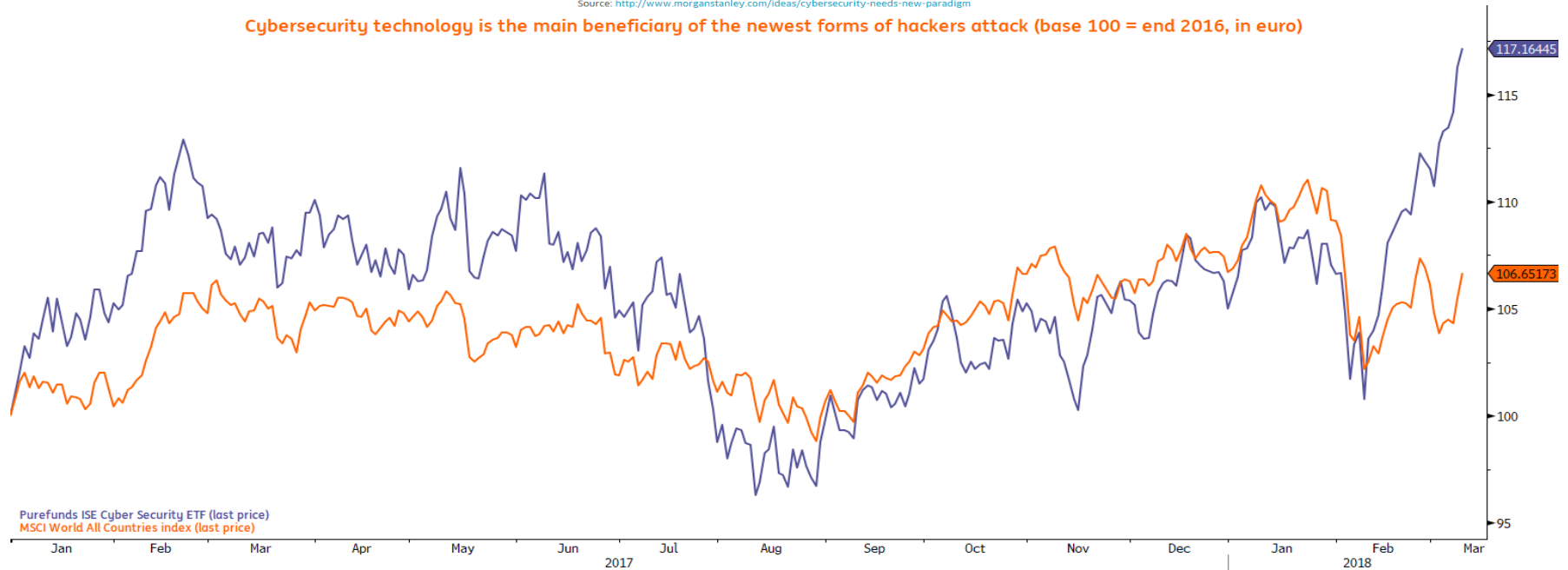
# Some long-term investment themes (2)

- Cybercrime has increasingly affected multiple industries, thereby boosting demand for cybersecurity services



Source: <http://www.morganstanley.com/ideas/cybersecurity-needs-new-paradigm>

Cybersecurity technology is the main beneficiary of the newest forms of hackers attack (base 100 = end 2016, in euro)



HACK US Equity (ETFMG Prime Cyber Security ETF) cybersecu Daily 30DEC2016-10MAR

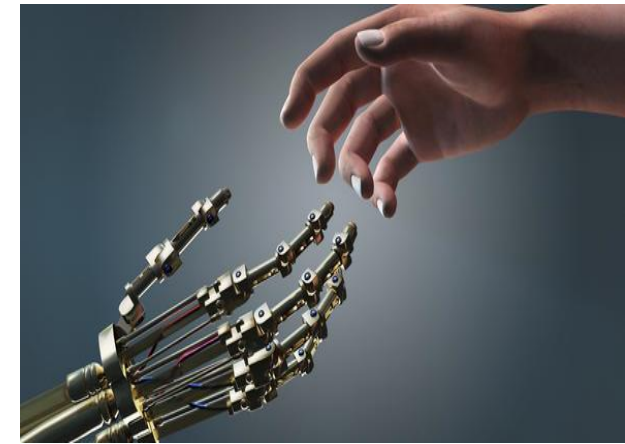
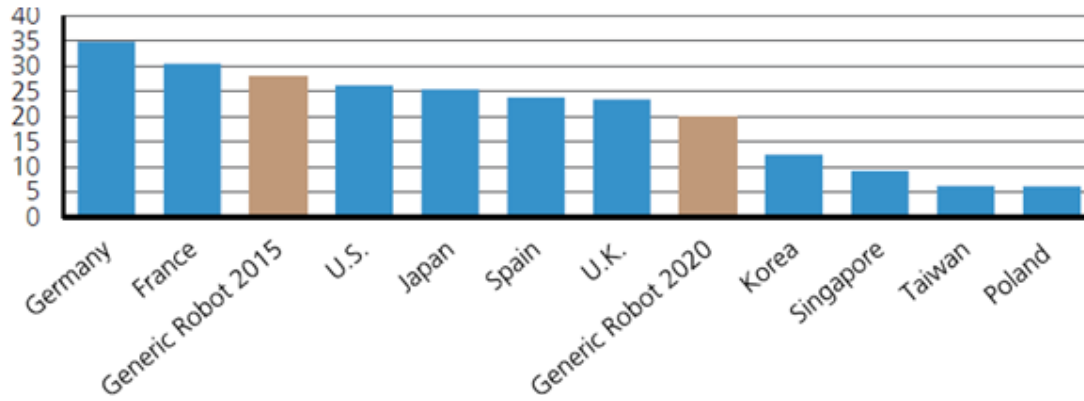
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# Some long-term investment themes (3)

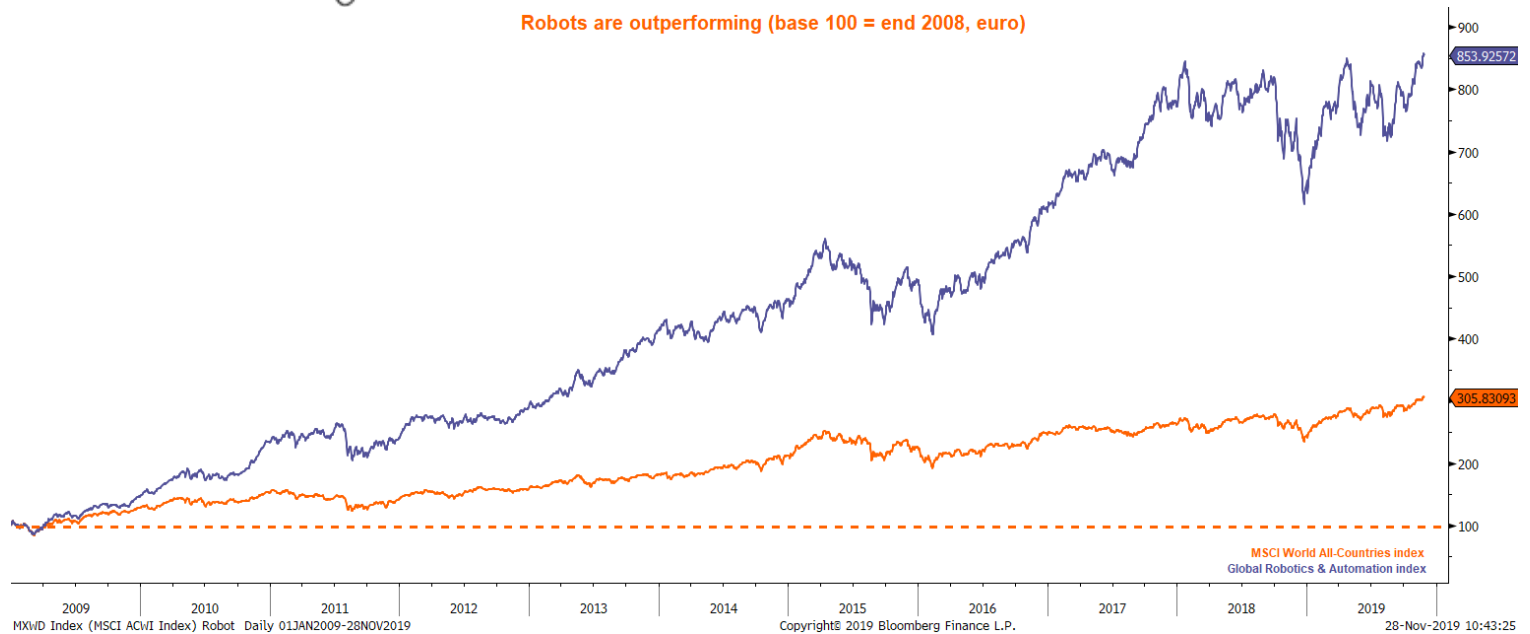
- The rise of the robot, IoT and AI...

Comparaison entre le coût horaire d'un robot et d'un salarié dans le secteur manufacturier (USD)



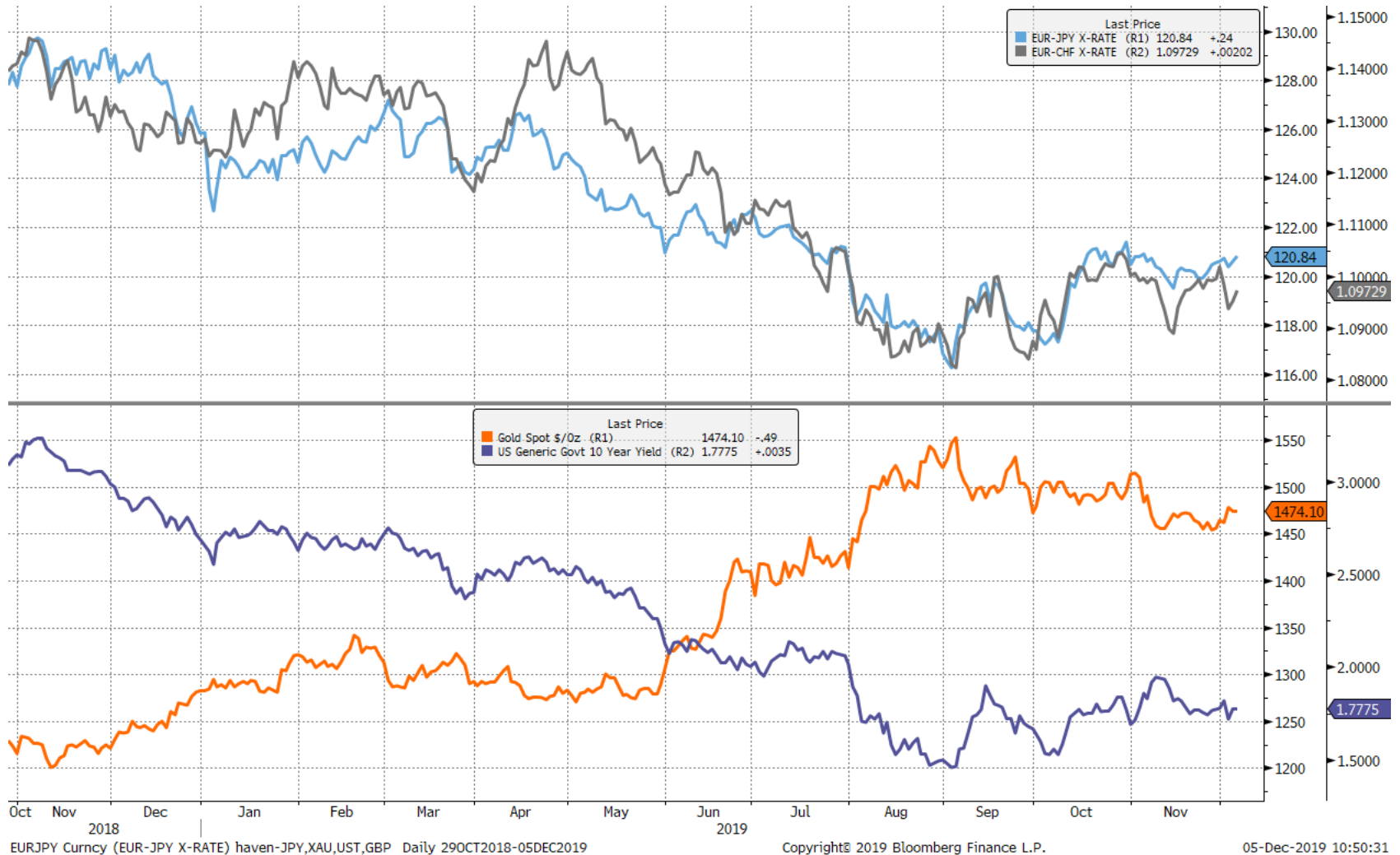
Source: BCG, ILO

Robots are outperforming (base 100 = end 2008, euro)

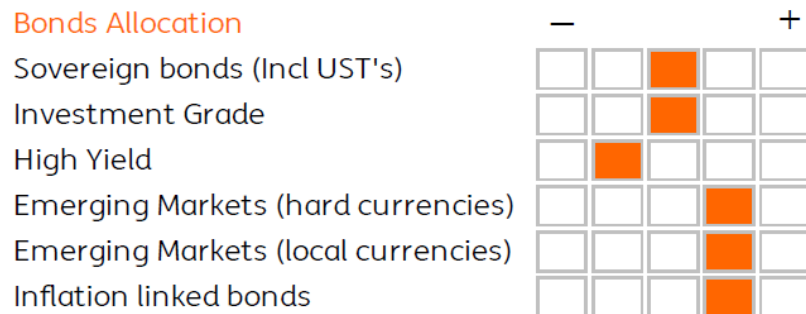
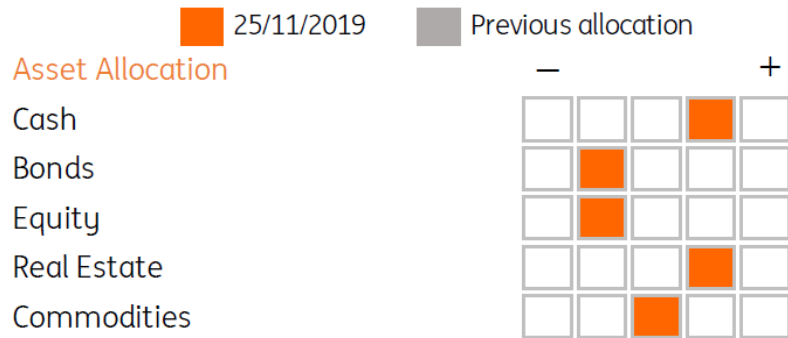




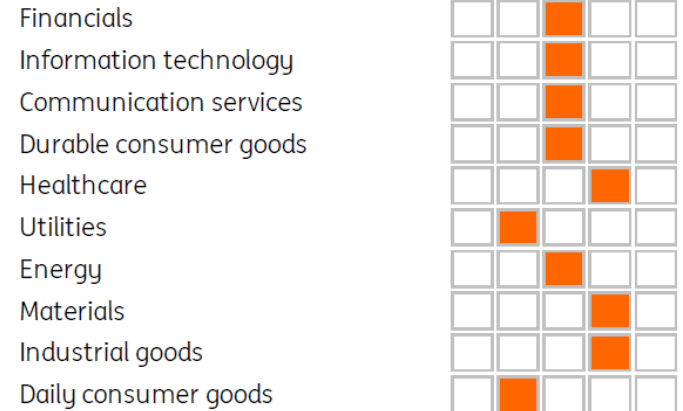
# Safe havens are worth revisiting



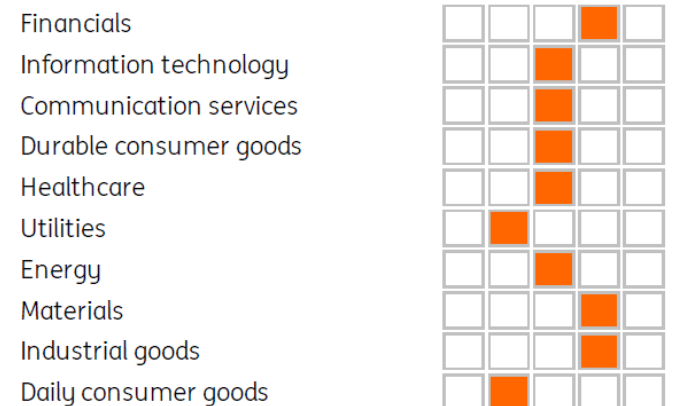
# TAA Summary



**Sector Allocation Europe**



**Sector Allocation US**



# Q&A



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