



Economic Outlook 1H2024

A Difficult Landing

Peter Vanden Houte, Chief Economist, 8 December 2023

Cyclical indicators suggest a cooling economy

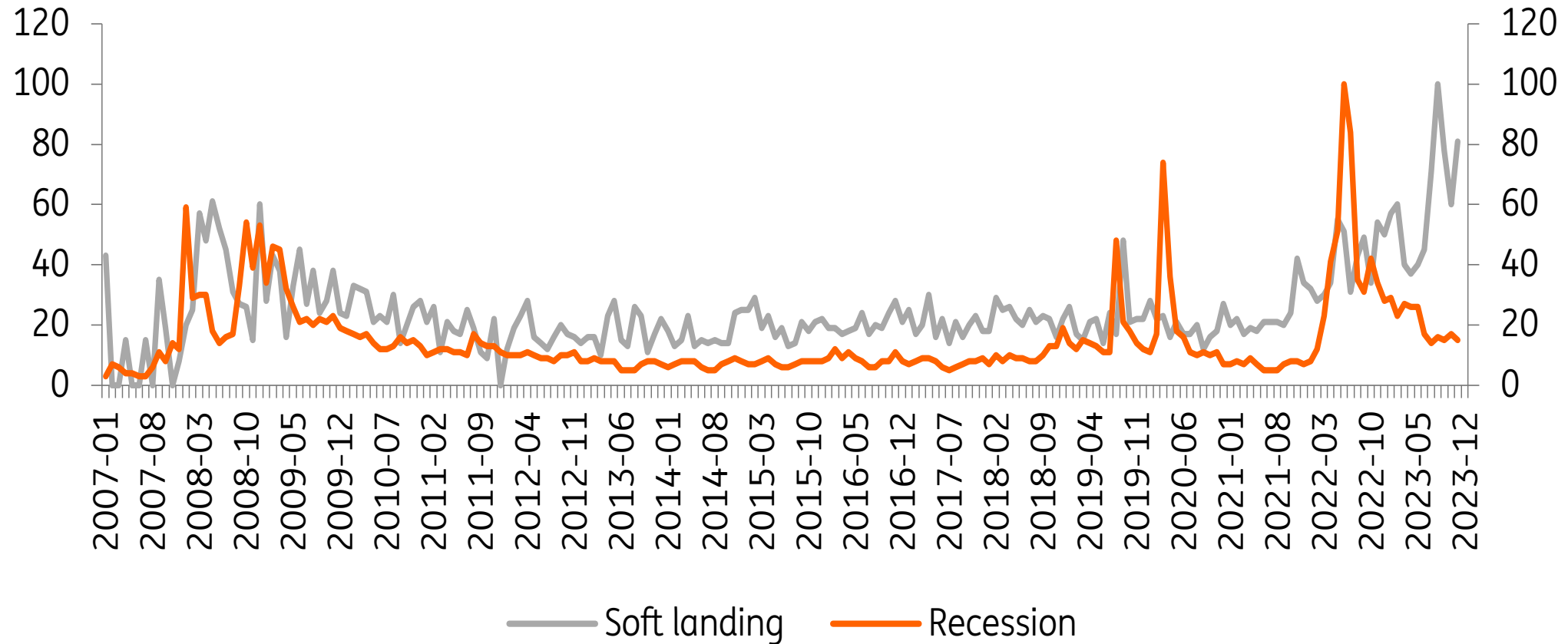
PMI Composite heatmap

	Nov 23	Oct 23	Sep 23	Aug 23	Jul 23	Jun 23
<i>Americas</i>						
Brazil	50.7	50.3	49.0	50.6	49.6	51.5
US	50.7	50.7	50.2	50.2	52.0	53.2
<i>Europe</i>						
France	44.6	44.6	44.1	46.0	46.6	47.2
Germany	47.8	45.9	46.4	44.6	48.5	50.6
Ireland	52.3	49.7	52.1	52.6	50.0	51.4
Italy	48.1	47.0	49.2	48.2	48.9	49.7
Russia	52.4	53.6	54.7	55.9	53.3	55.8
Spain	49.8	50.0	50.1	48.6	51.7	52.6
UK	50.7	48.7	48.5	48.6	50.8	52.8
<i>Asia</i>						
Australia	46.2	47.6	51.5	48.0	48.2	50.1
China	50.4	50.7	52.0	51.3	51.1	52.3
India	57.4	58.4	61.0	60.9	61.9	59.4
Japan	49.6	50.5	52.1	52.6	52.2	52.1
<i>Geographical/Geopolitical Regions</i>						
Emerging Markets	52.0	51.1	52.0	52.7	52.9	53.5
European Union	47.6	46.5	47.2	46.7	48.6	49.8
Eurozone	47.6	46.5	47.2	46.7	48.6	49.9
Global	50.4	50.0	50.5	50.6	51.6	52.6

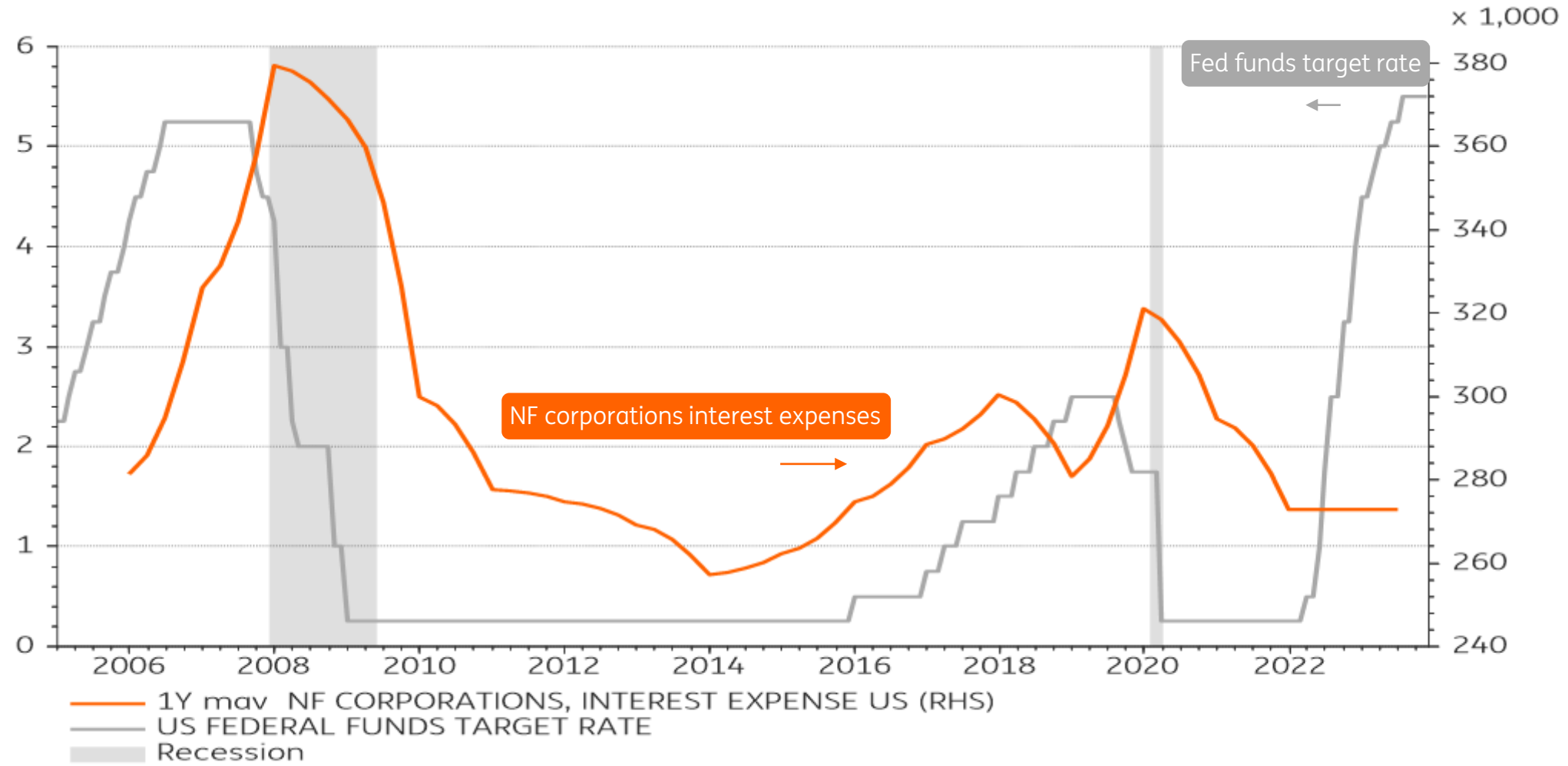
Source: LSEG Datastream, ING Economic Research

Recession fears have eased in the US (prematurely?)

Google trends US

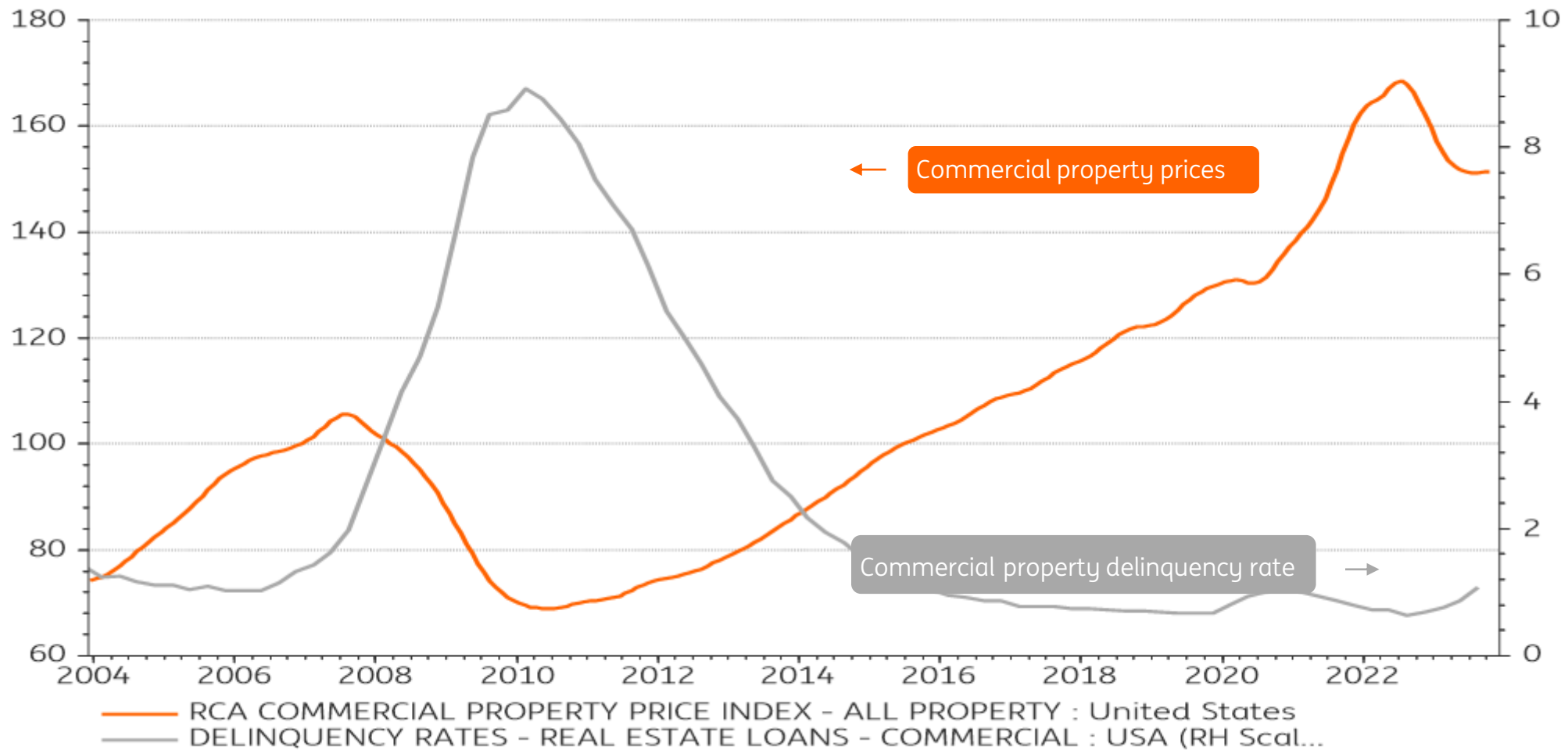


Biggest impact of monetary tightening still to come?

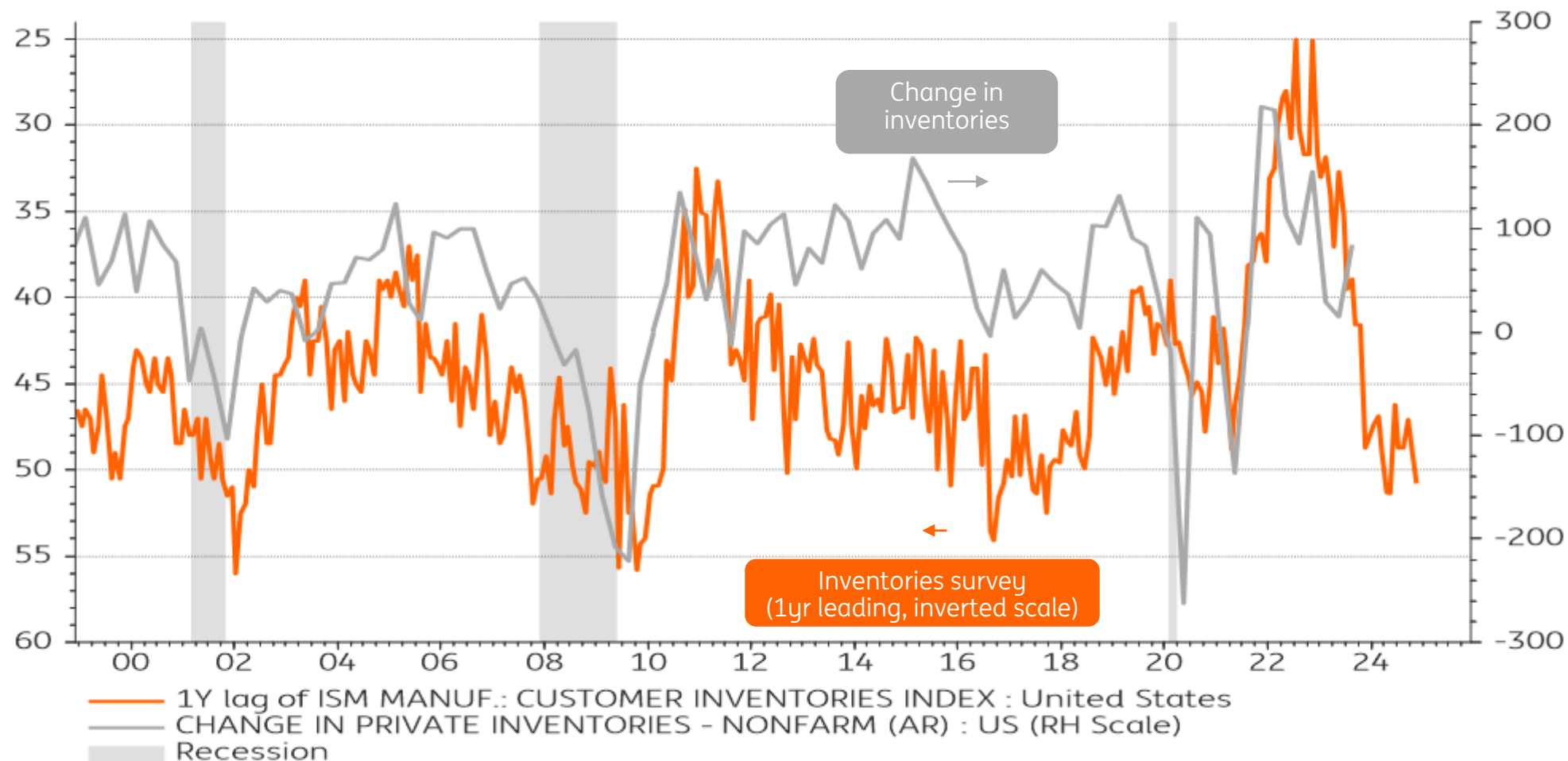


Source: LSEG Datastream, ING Economic Research

Potential trouble in US commercial real estate

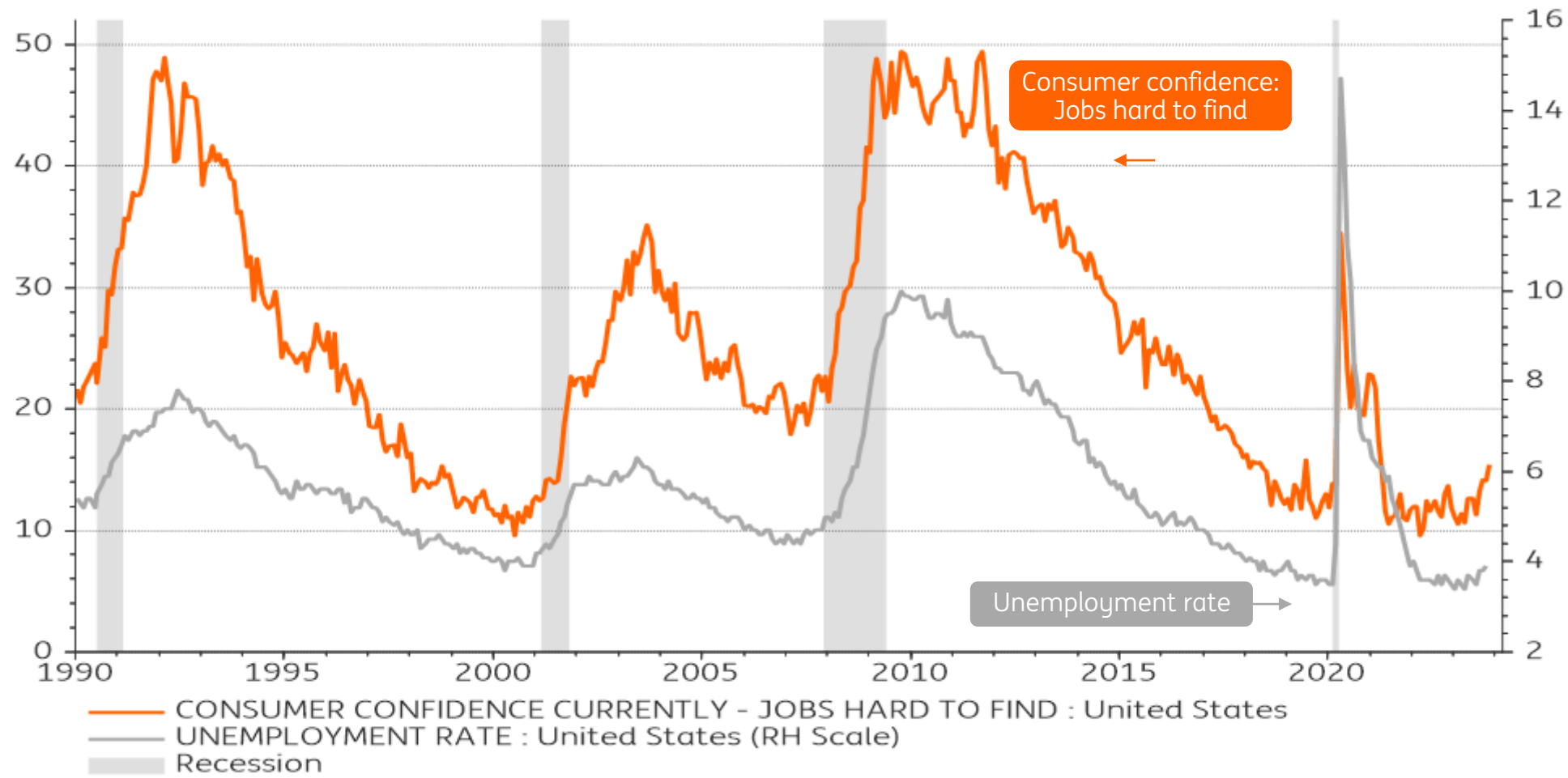


Inventory cycle in the US will weigh on growth in coming quarters



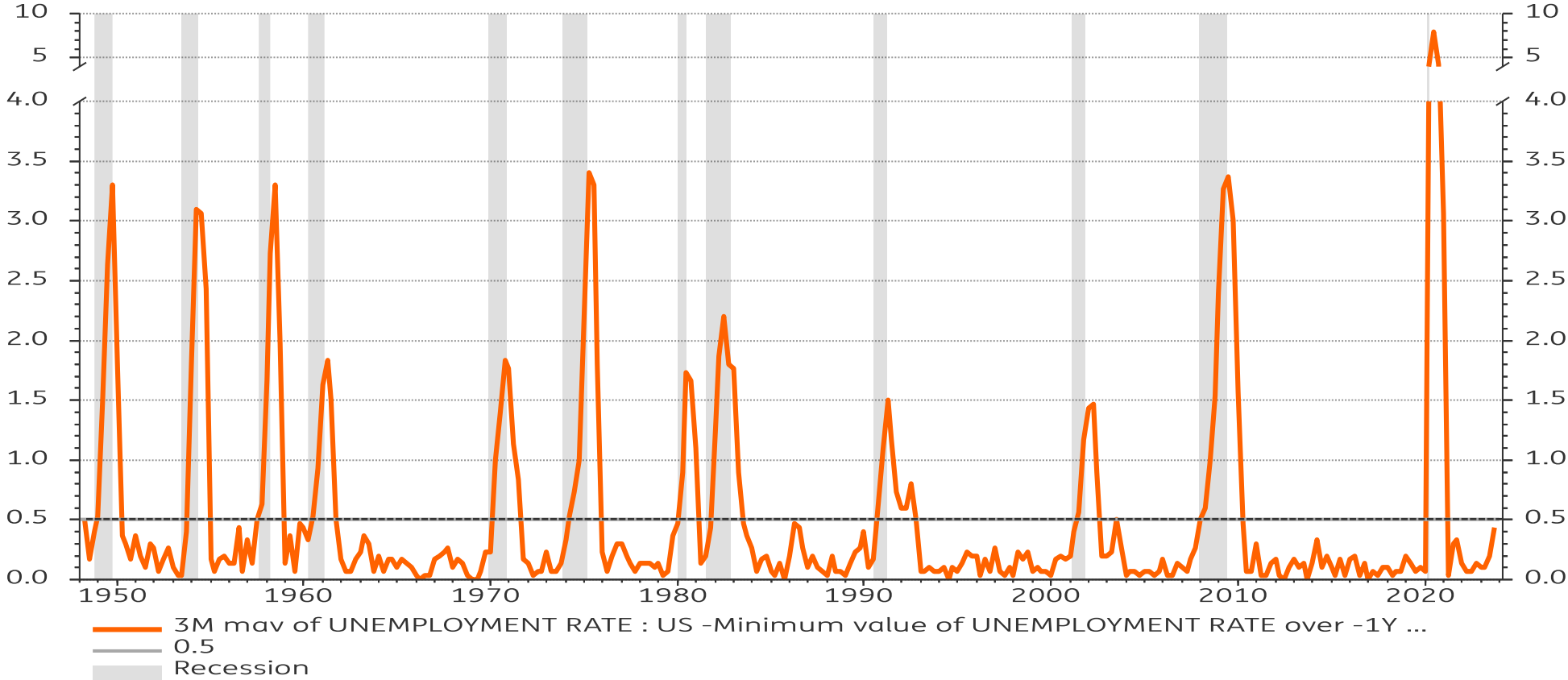
Source: LSEG Datastream, ING Economic Research

US unemployment is now starting to increase



Source: LSEG Datastream, ING Economic Research

Sahm Rule not at recession level yet (but close)



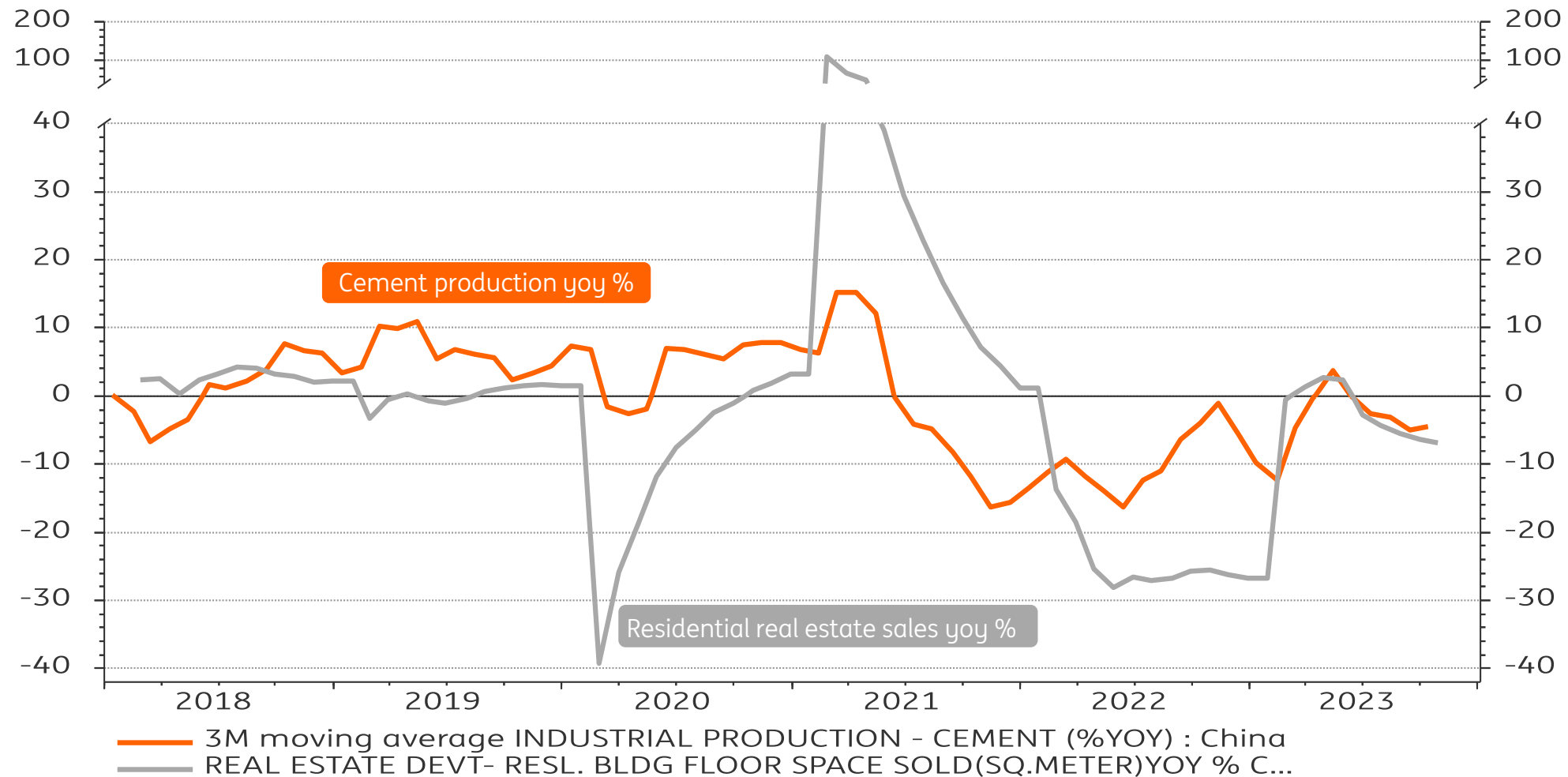
Source: LSEG Datastream, ING Economic Research

“Sahm Recession Indicator signals the start of a recession when the three-month moving average of the national unemployment rate (U-3) rises by 0.50 percentage points or more relative to its low during the previous 12 months.”

Chinese recovery at a snail's pace

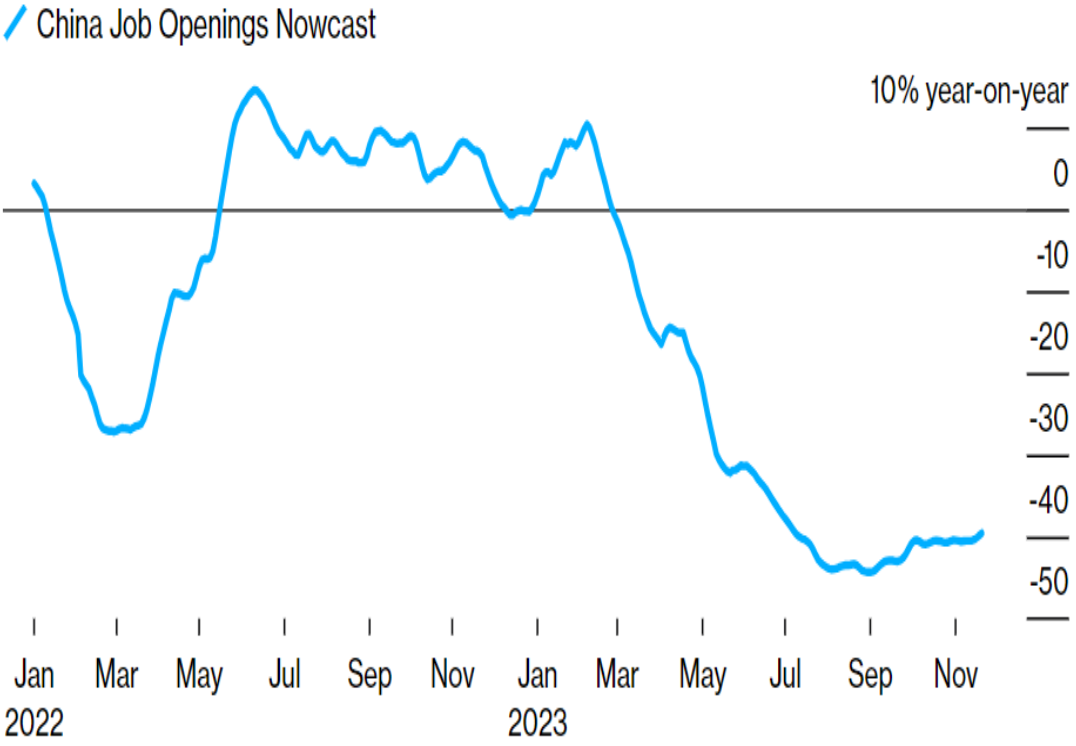


Real estate/construction remains problematic in China



Source: LSEG Datastream, ING Economic Research

Weak Chinese labour market, low consumer confidence

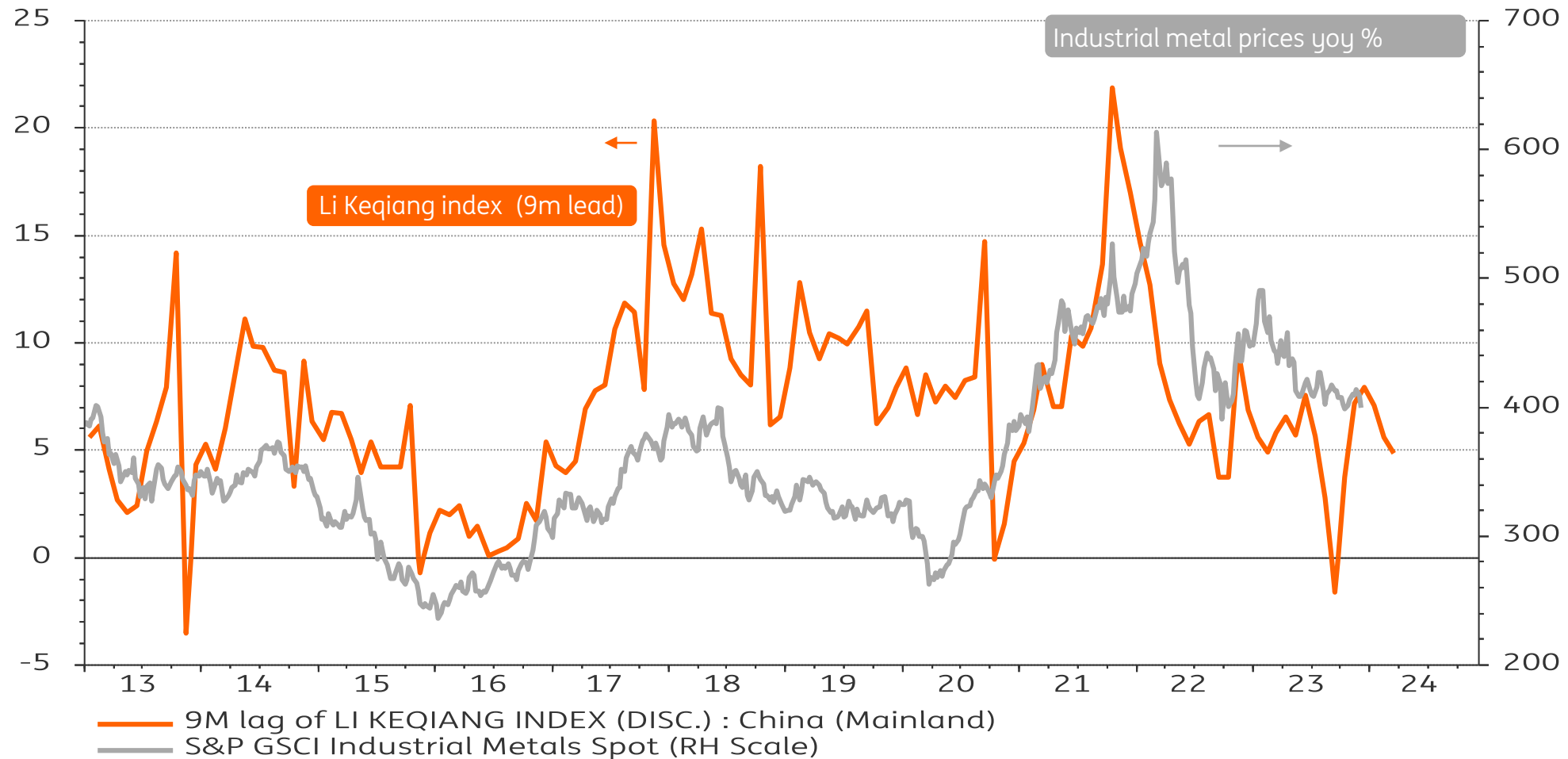


Source: QuantCube Technology



Source: LSEG Datastream, ING Economic Research

Lackluster Chinese growth is still weighing on metal prices



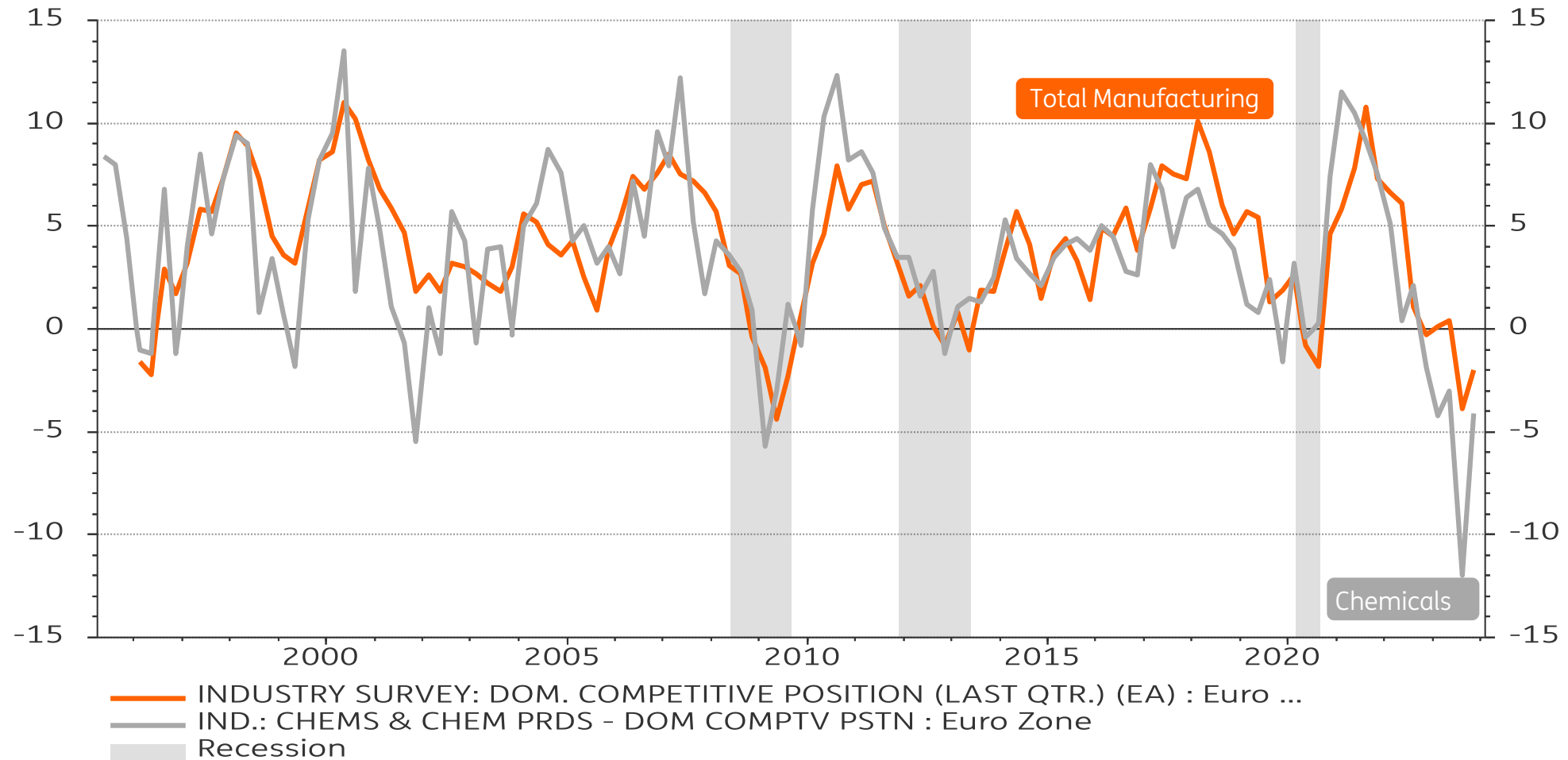
Source: LSEG Datastream, ING Economic Research



A stagnating Eurozone economy

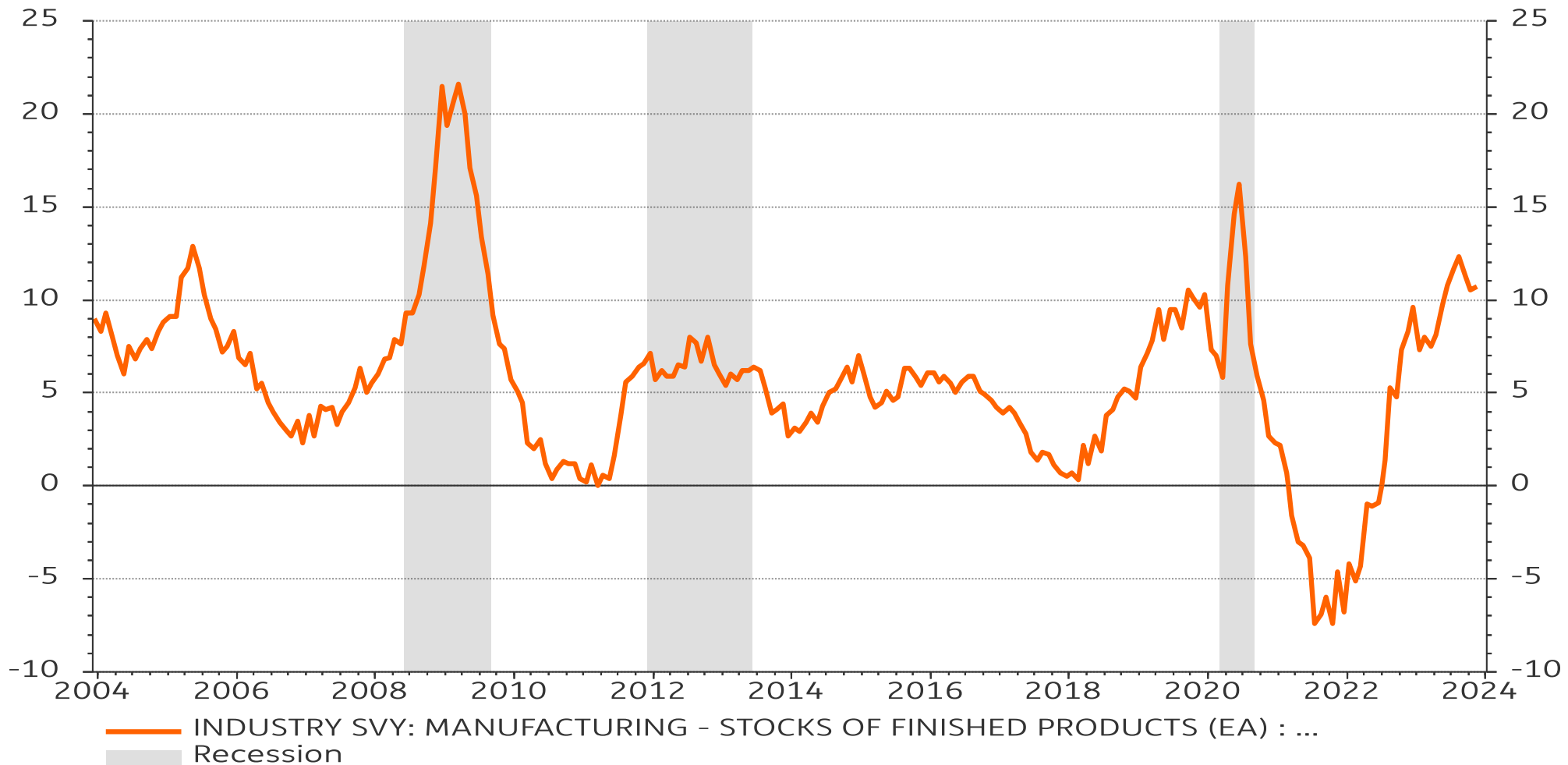
Energy intensive sectors are (still) suffering

Domestic competitive position



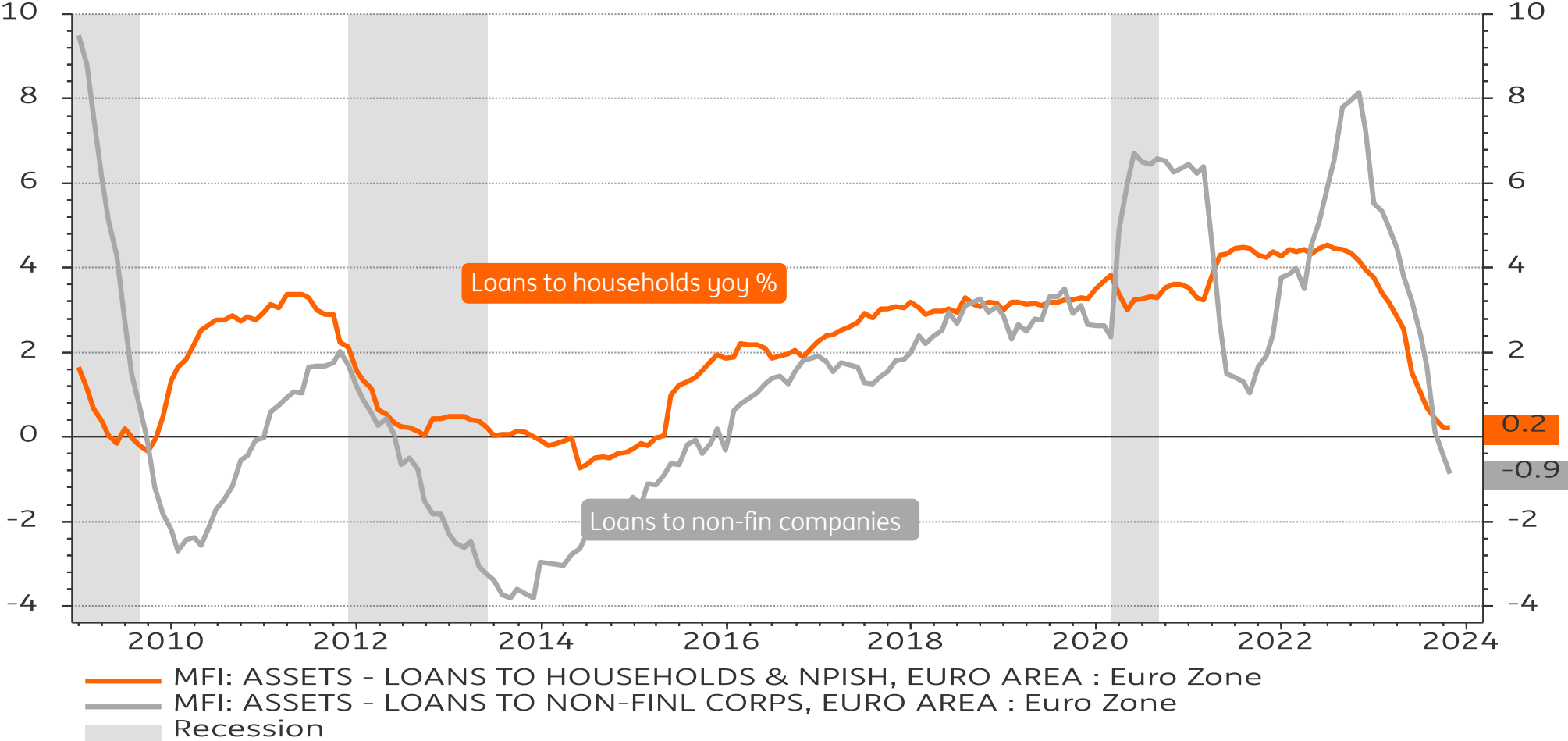
Source: LSEG Datastream, ING Economic Research

Inventories at very high level in the Eurozone



Source: LSEG Datastream, ING Economic Research

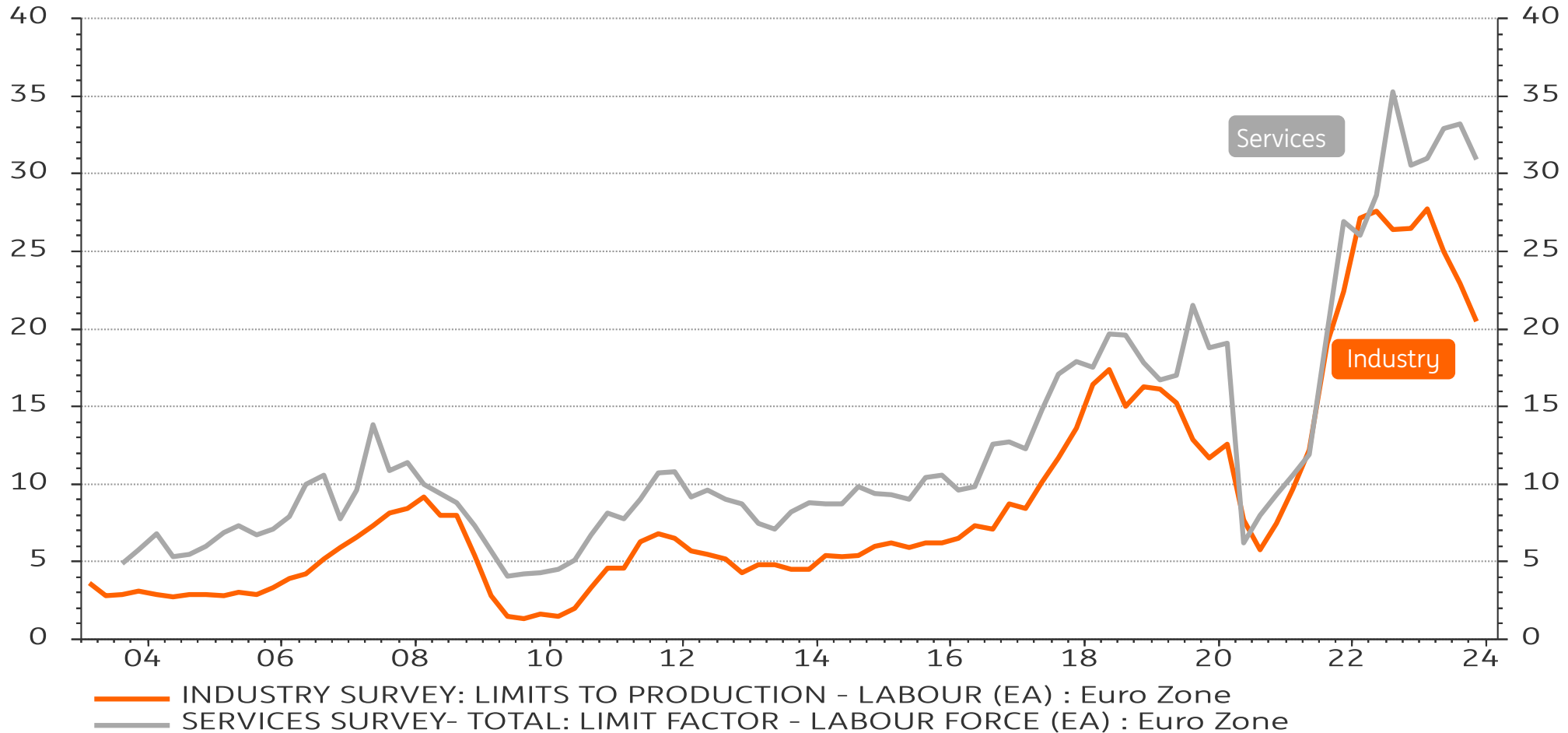
Tighter monetary policy starts to affect credit demand



Source: LSEG Datastream, ING Economic Research

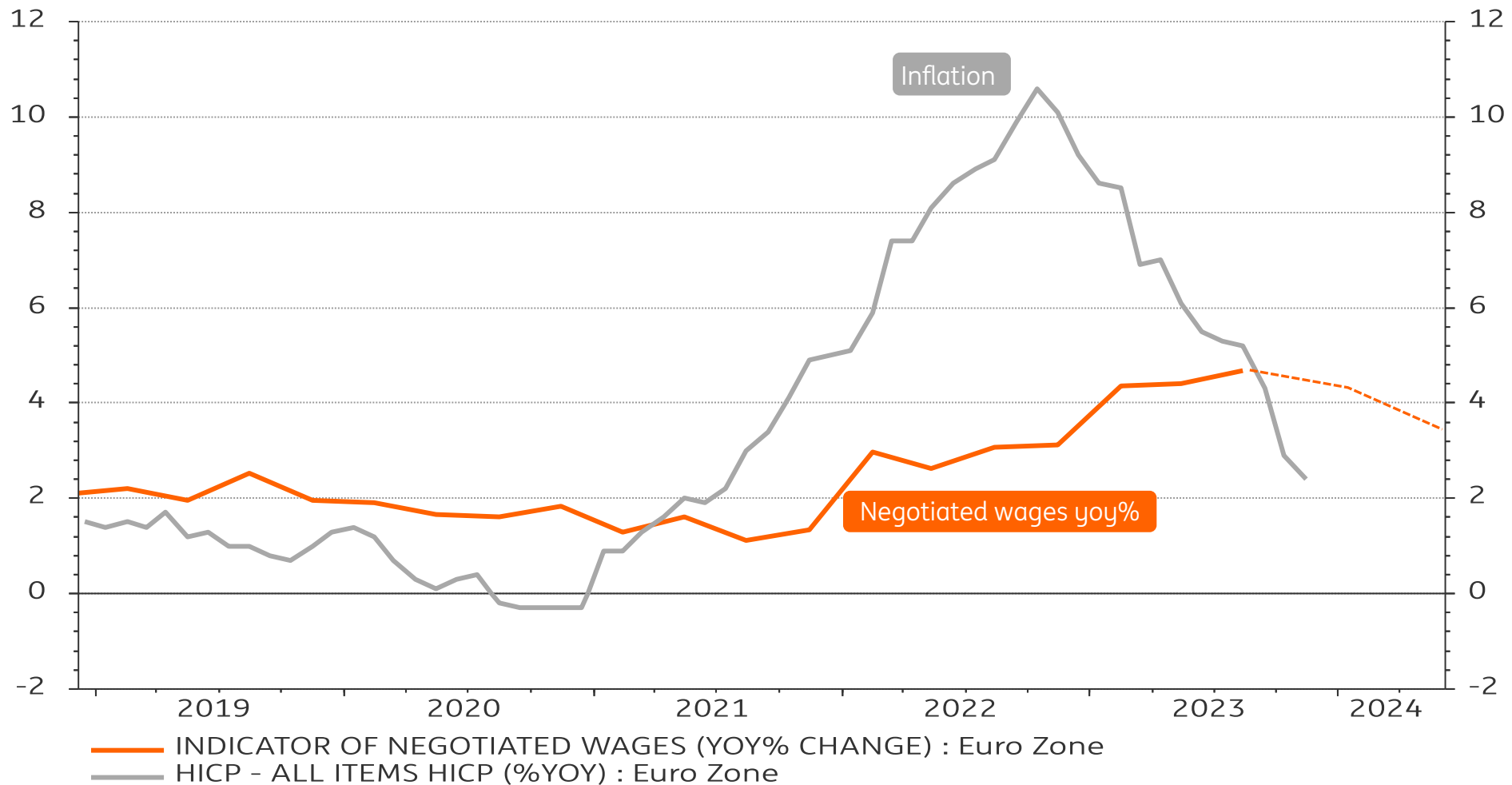
Labour market remains structurally tight

Limits to production: labour



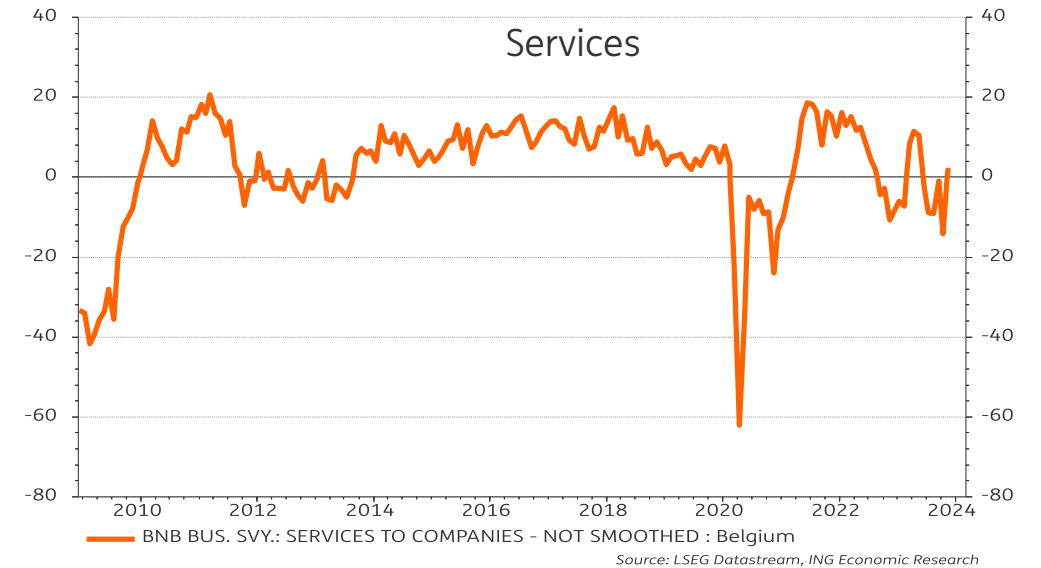
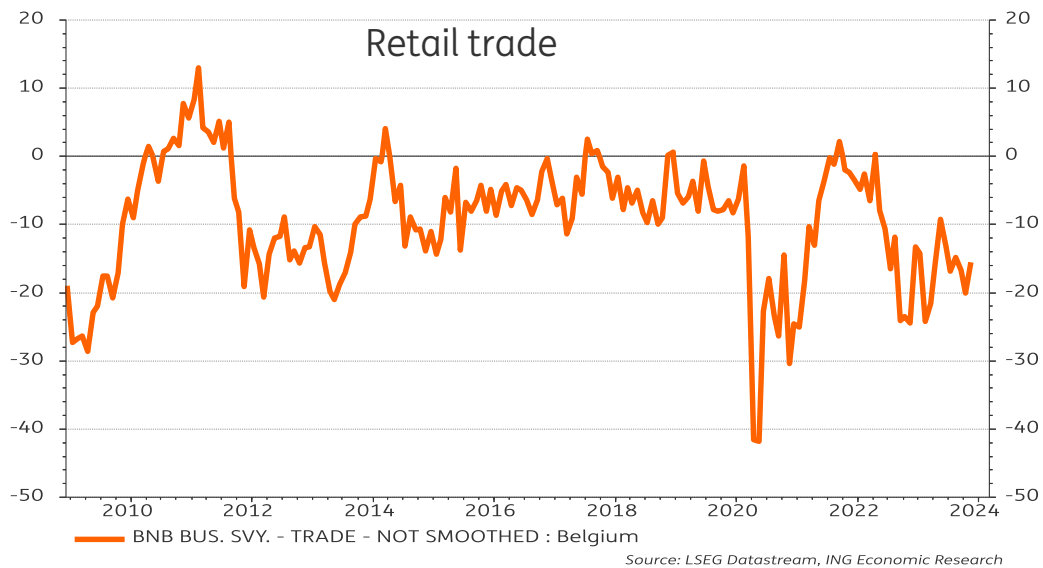
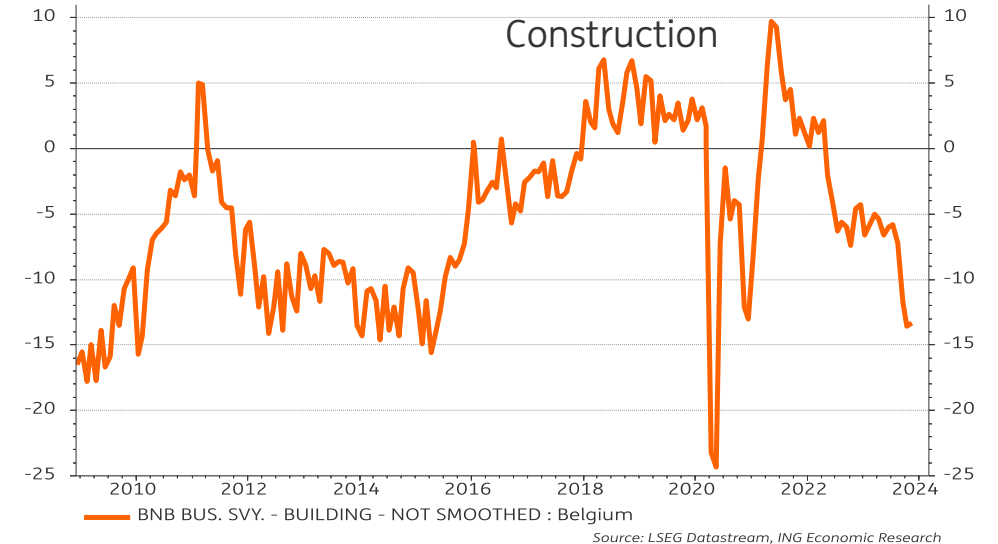
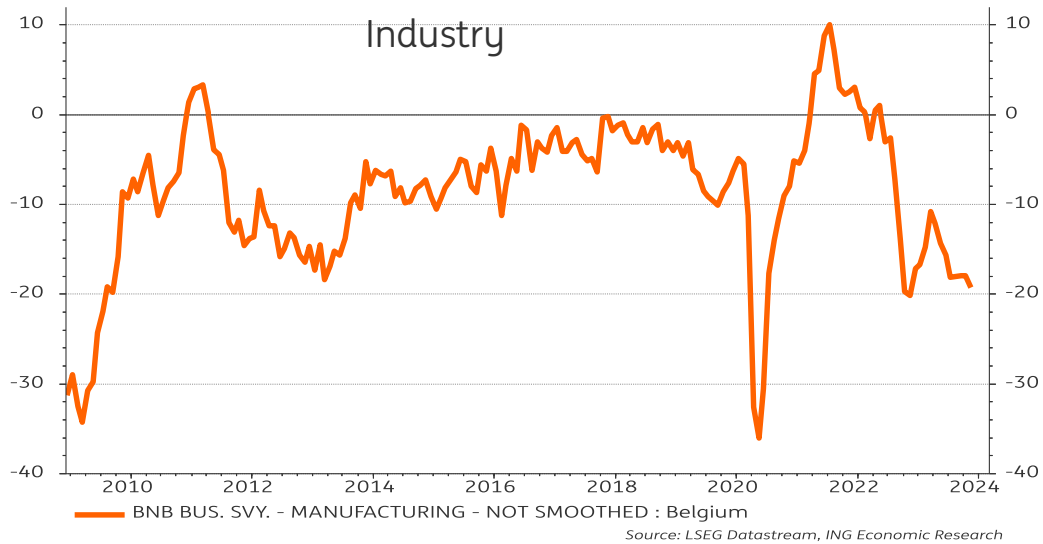
Source: LSEG Datastream, ING Economic Research

Eurozone consumer will have more purchasing power in 2024



Source: LSEG Datastream, ING Economic Research

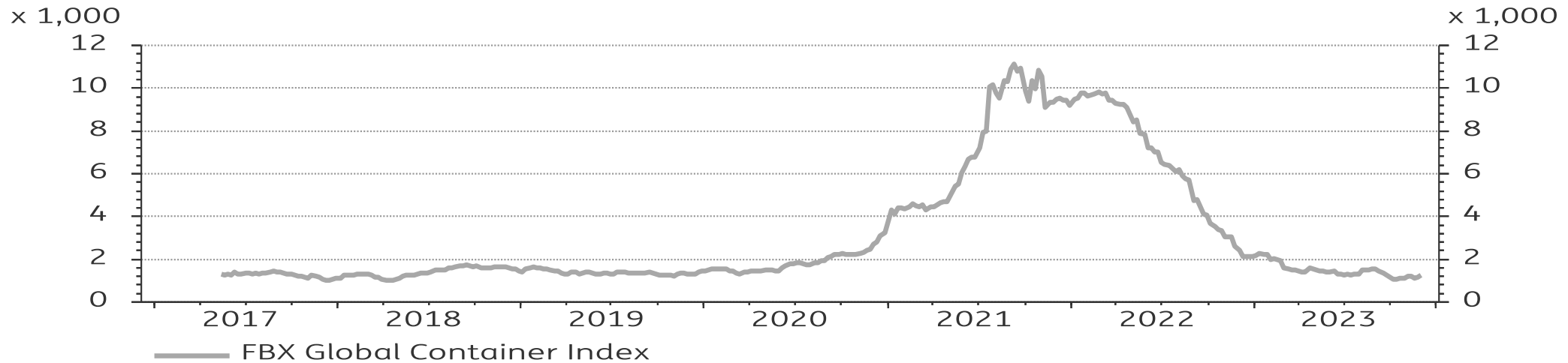
Belgian economy : diverging confidence



Growth expectations

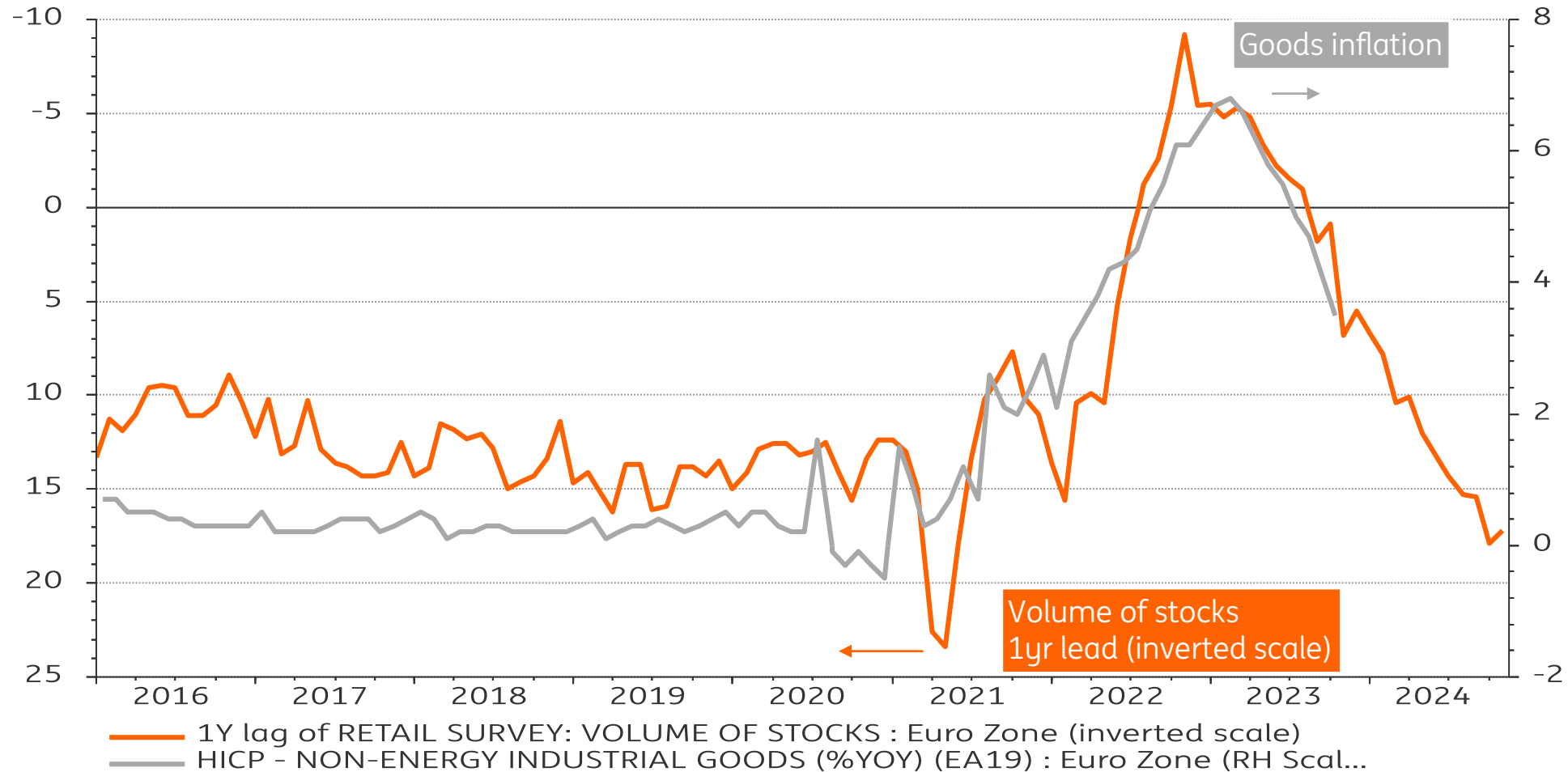
	2021	2022	2023	2024
USA	5.8	1.9	2.2	0.5
Eurozone	5.9	3.4	0.5	0.3
UK	8.7	4.3	0.6	0.4
Belgium	6.9	3.0	1.4	0.7
Japan	2.3	0.9	1.8	1.2
China	8.8	3.0	5.4	5.2

Supply chain constraints are less important than before the pandemic



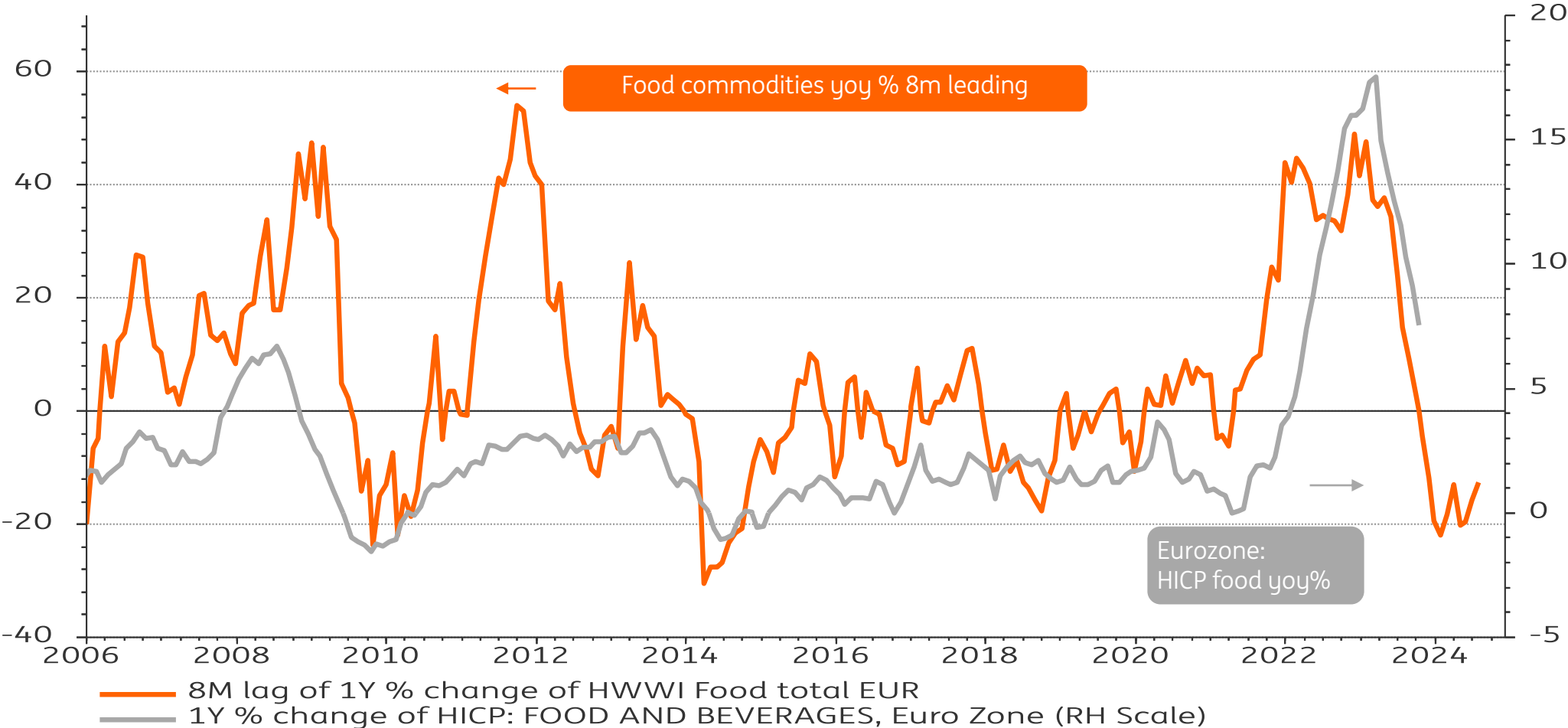
Source: LSEG Datastream, ING Economic Research

High level of inventories in the eurozone is deflationary...



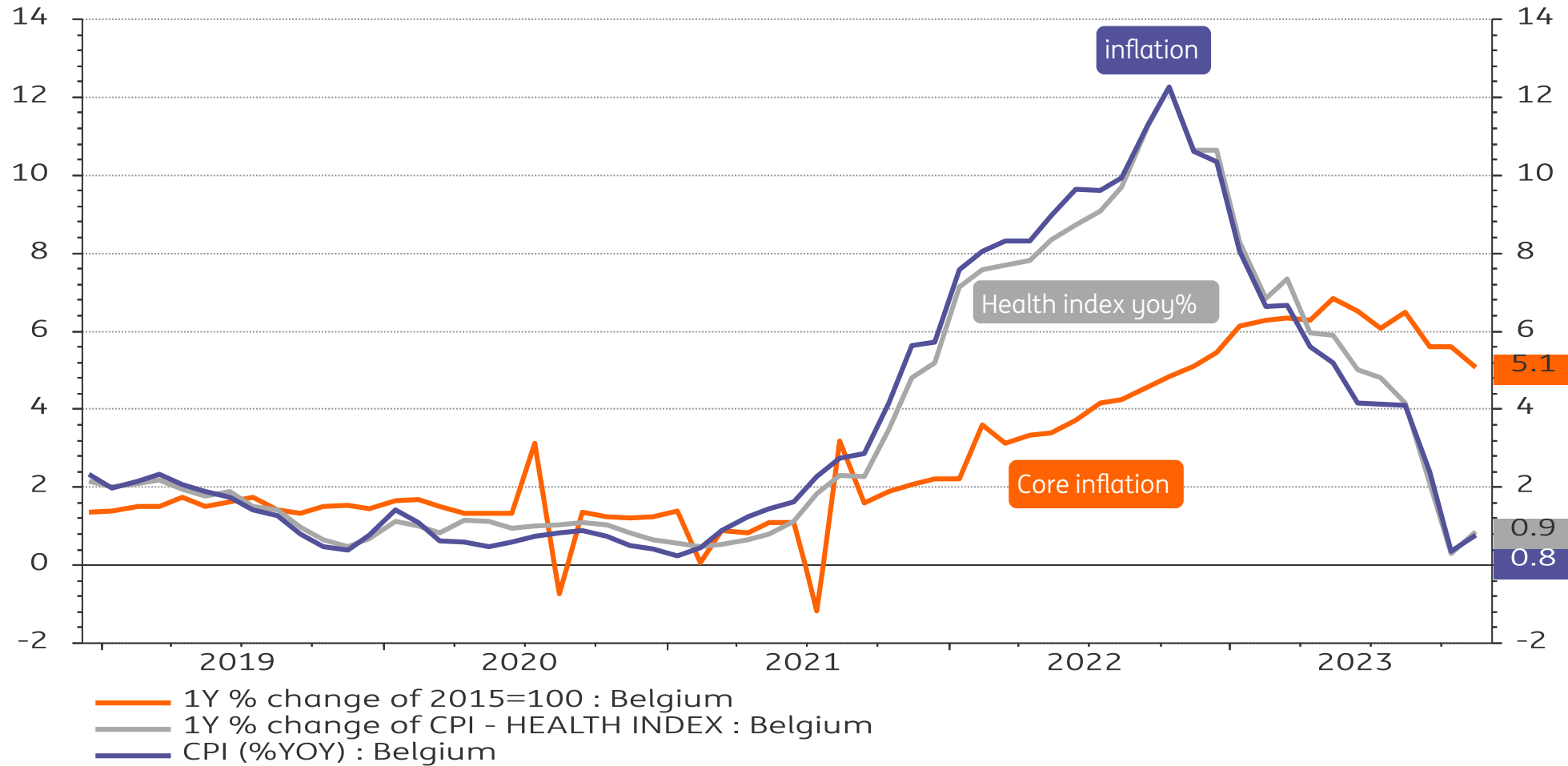
Source: LSEG Datastream, ING Economic Research

...and food inflation is falling back in the eurozone



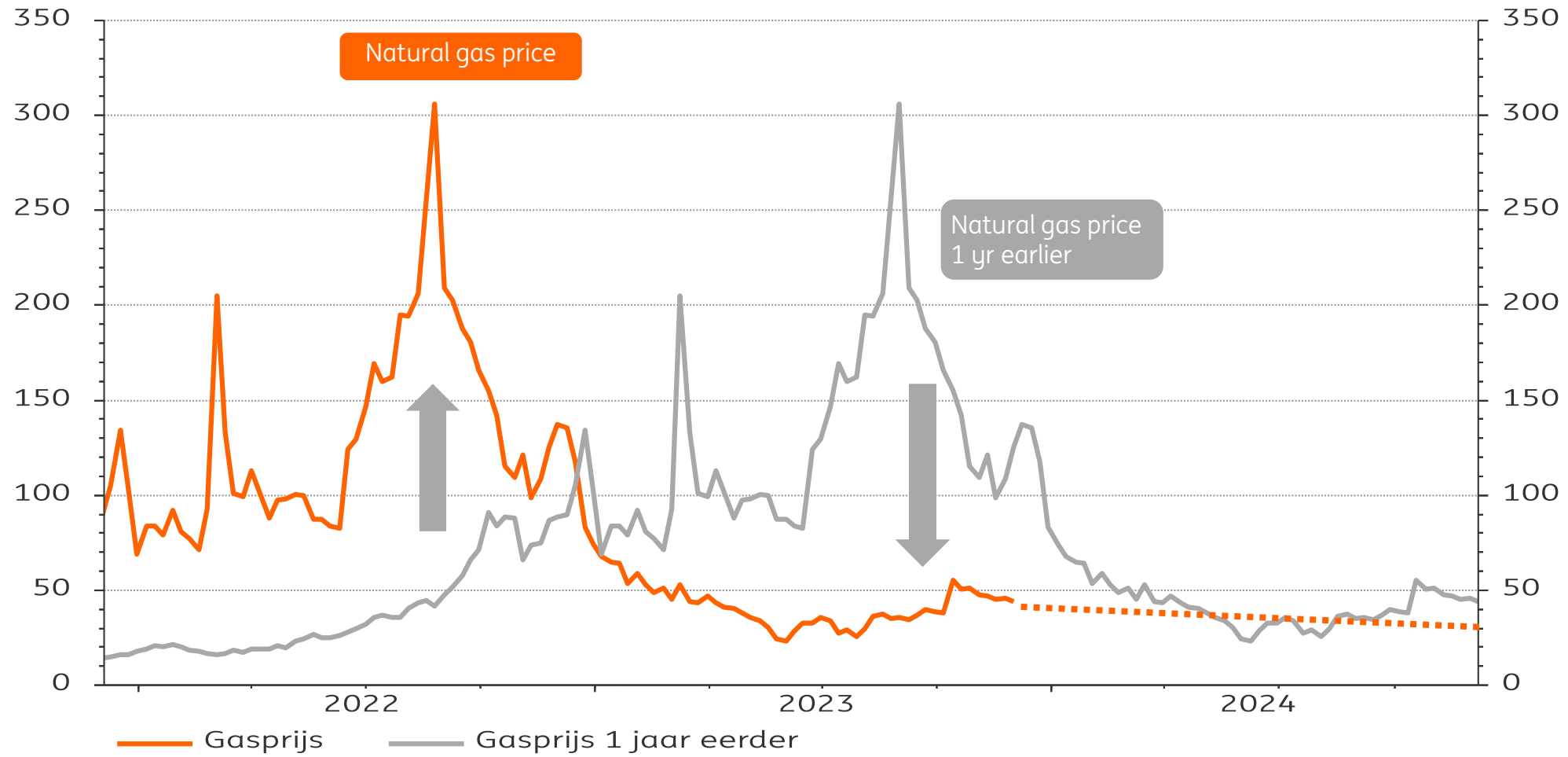
Source: LSEG Datastream, ING Economic Research

Belgian health index expected to rise around 3.5% next year



Source: LSEG Datastream, ING Economic Research

Base effects could drive inflation temporarily higher

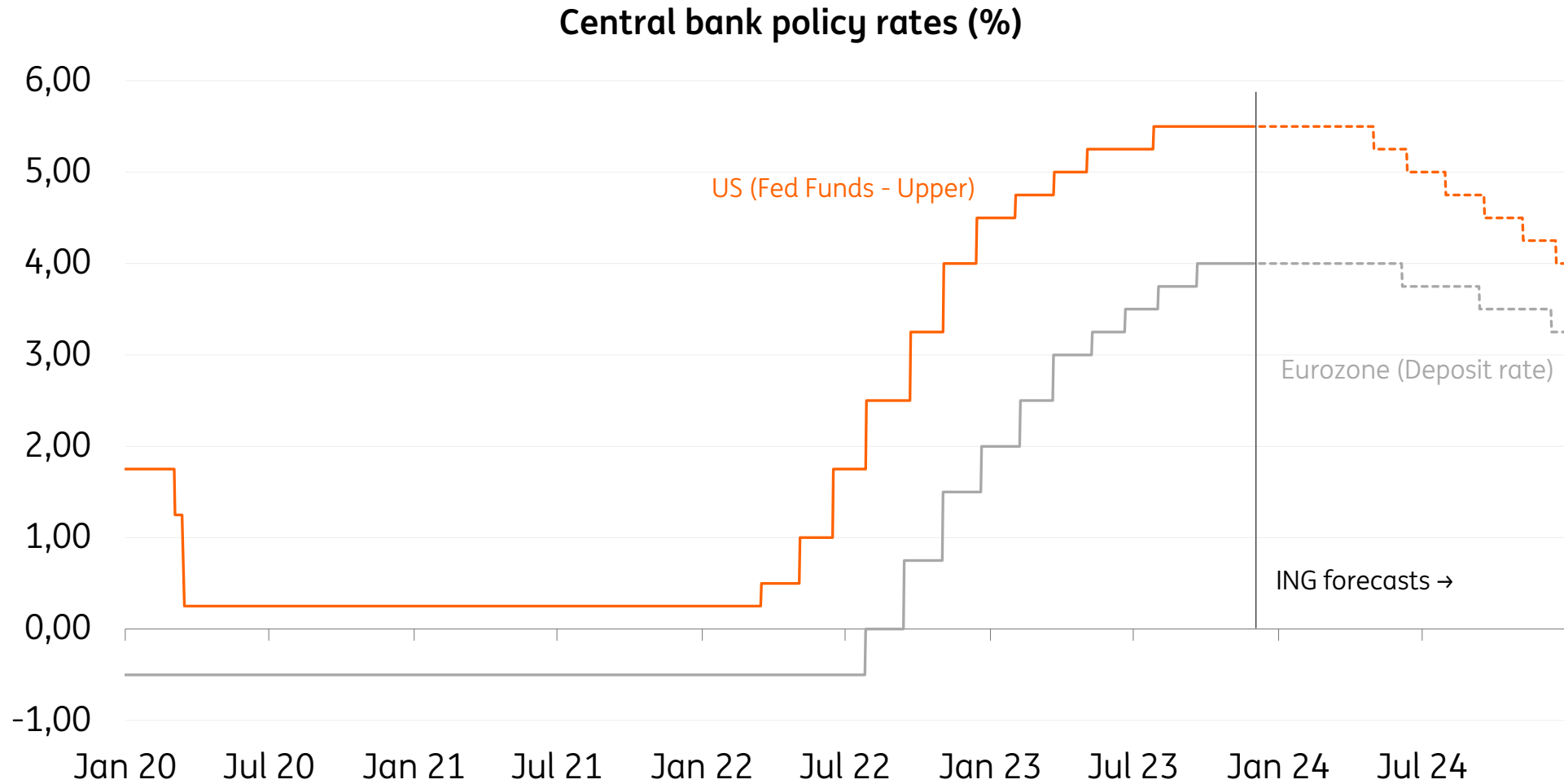


Source: LSEG Datastream, ING Economic Research



**Interest rates:
How long is higher for longer?**

What to expect from central banks?



What is the (nominal) neutral rate?

- Neutral rate is lower than 20 years ago (demographics, productivity growth,...)
- Francesco Grigoli, Josef Platzter, and Robin Tietz (IMF (2023)):
 - For the median country r^* (neutral rate in real terms) is around 0.5%
- In the 10 years before the financial crisis:
 - In the US: average inflation 2.5%, average short rate: 3.8%
 - In the eurozone: average inflation 2%, average short rate 3%
- Estimates centrale banks nominal neutral rate:
 - Federal Reserve (2.5%, but growing number of governors think it's higher)
 - ECB Chief Economist Lane estimates it around 2%



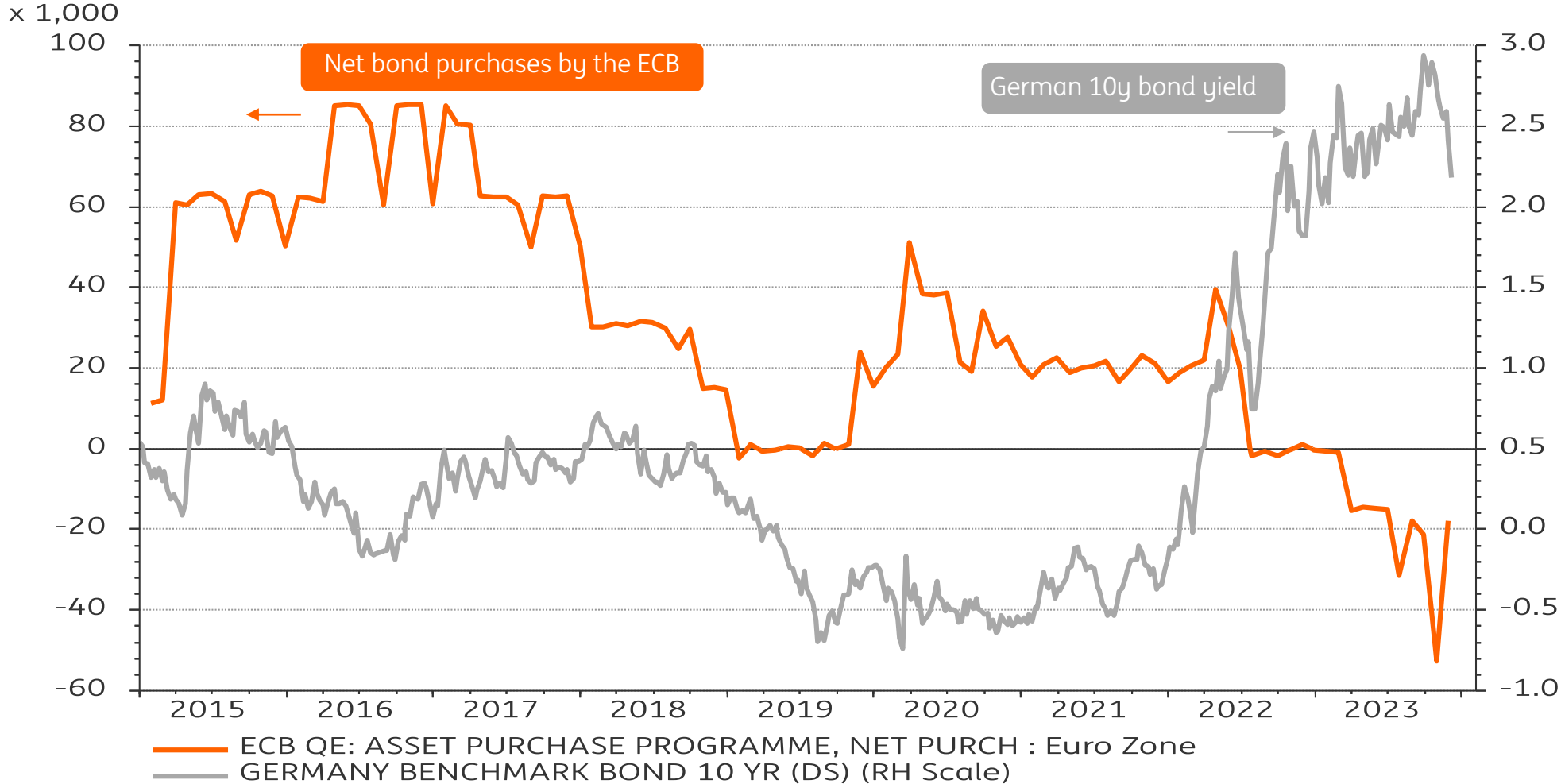
Nominal neutral rate USD: close to 3%, EUR: close to 2.5%

Yield curve already strongly inverted => limits the potential for the long end to decline...



Source: LSEG Datastream, ING Economic Research

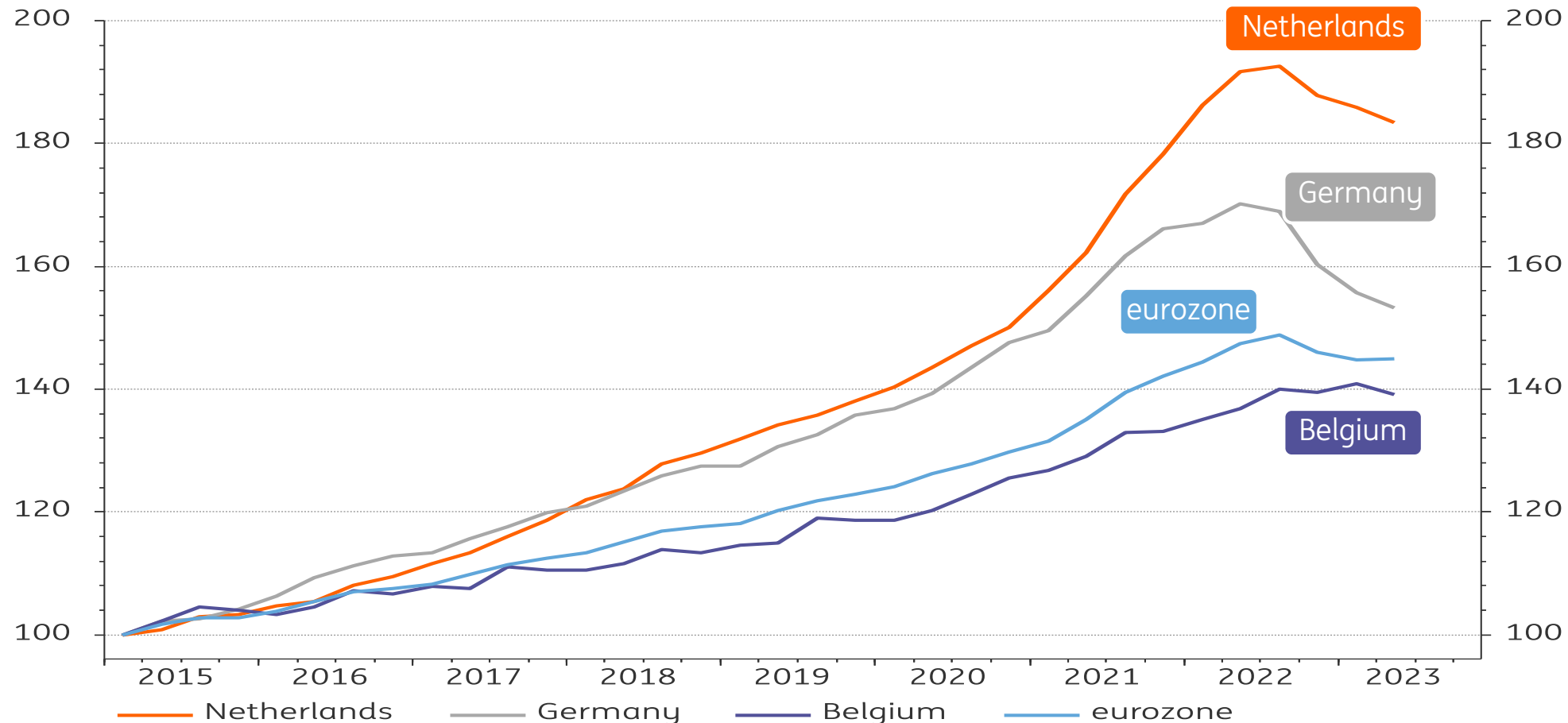
...and ECB has started to diminish its bond holdings



Source: LSEG Datastream, ING Economic Research

Belgian house prices have risen less than in neighbouring countries

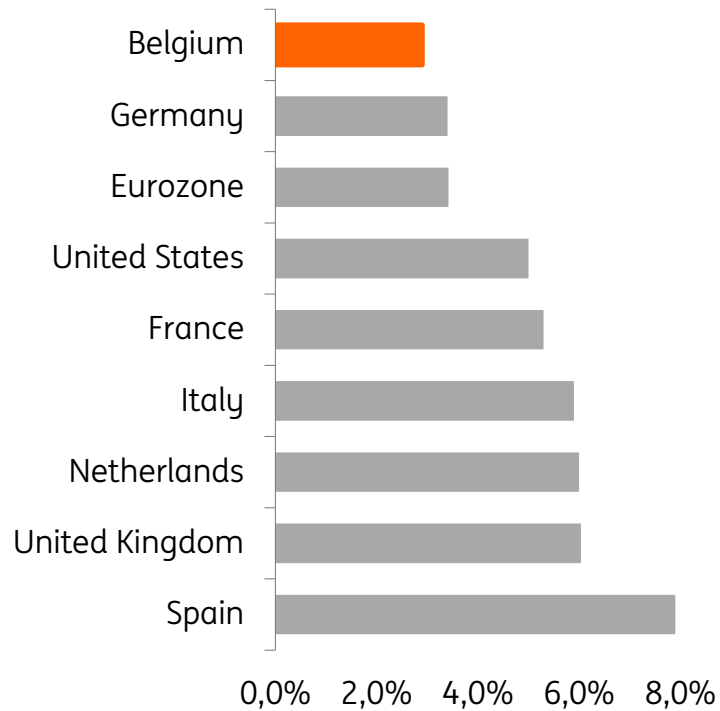
Evolution house prices Belgium, the Netherlands, eurozone and Germany



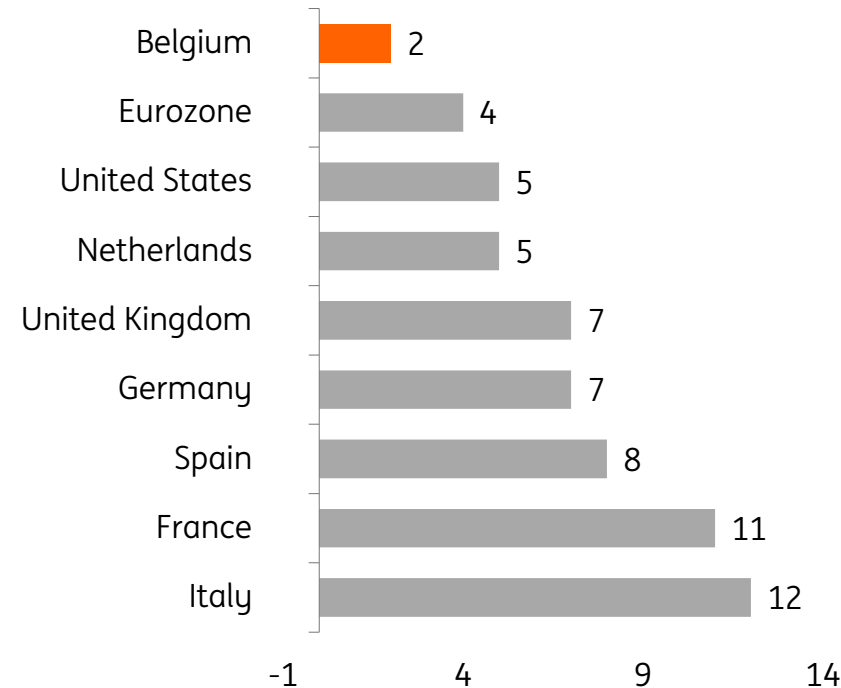
Source: LSEG Datastream, ING Economic Research

Belgium has the most stable property price evolution among major OECD countries since 1990

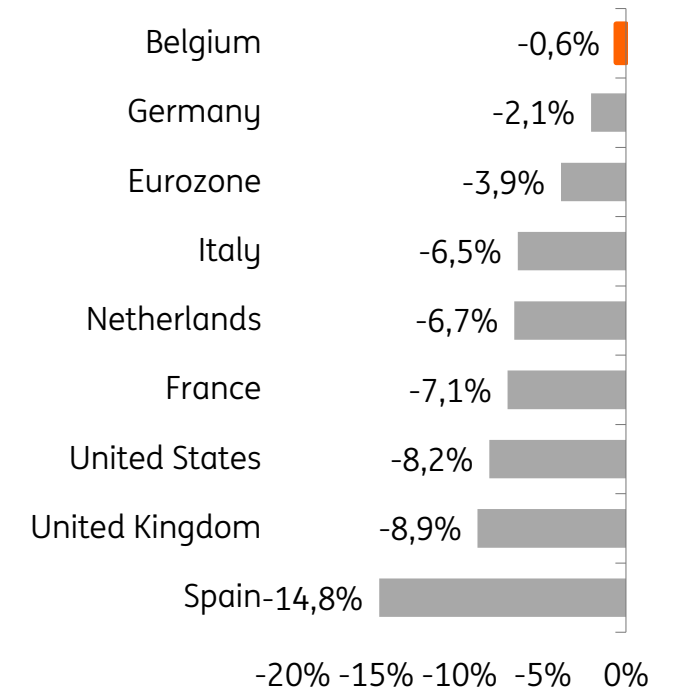
Housing price volatility



Number of years with falling house prices



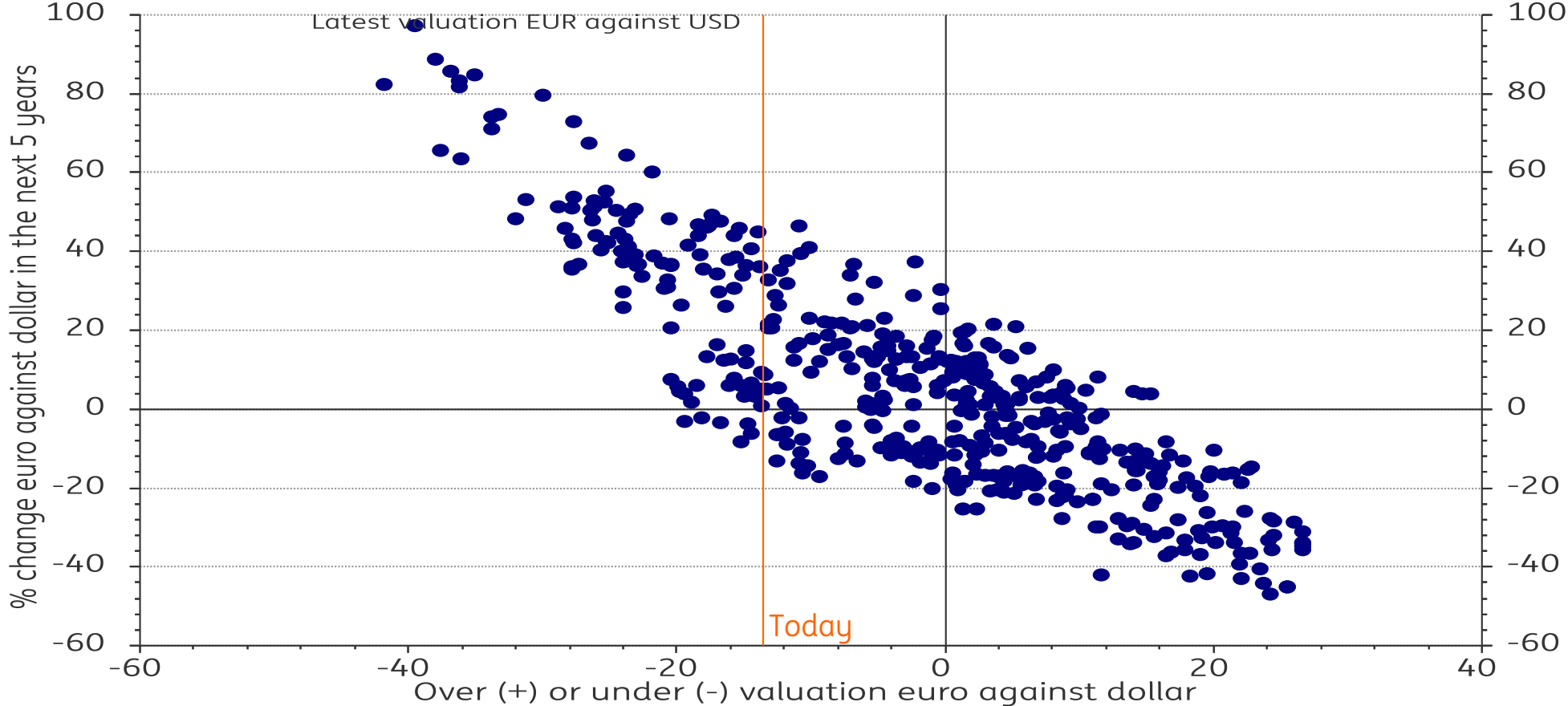
Biggest annual price drop



Source: OECD, analysis ING

Euro is more than 10% undervalued against dollar according to Purchasing Power Parity...

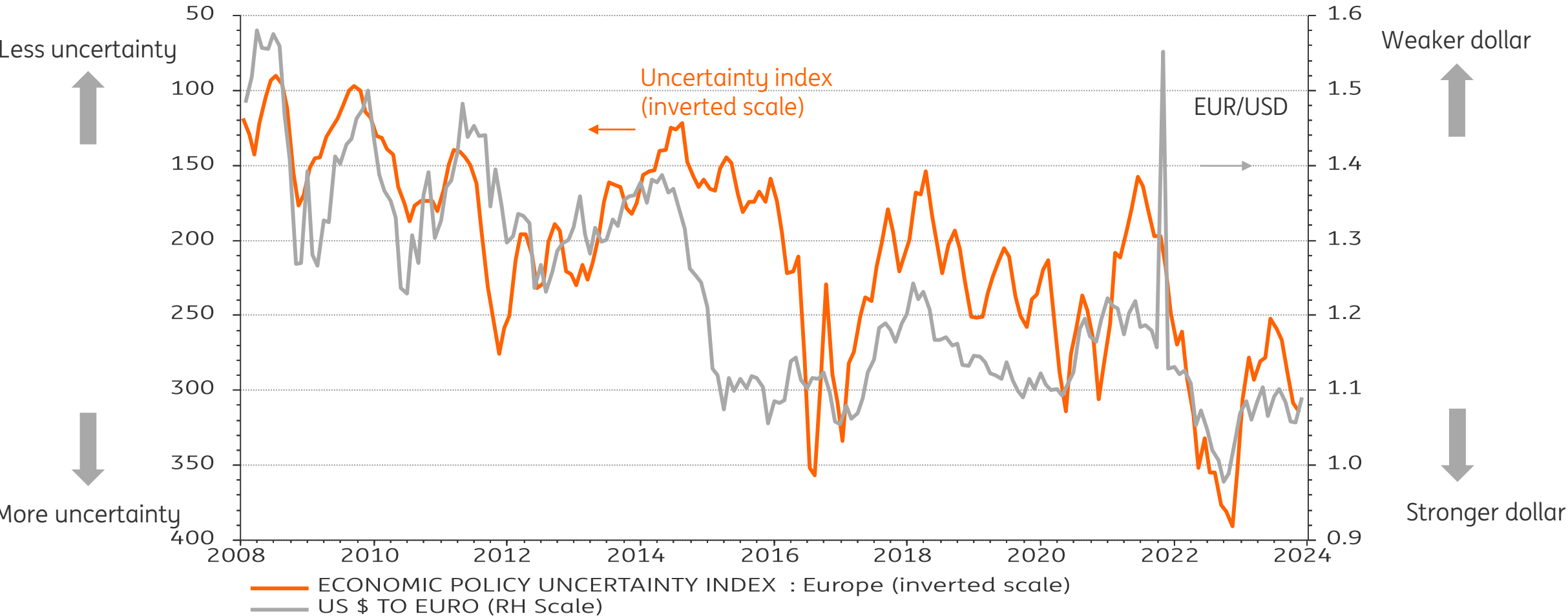
Period 1973 - 2018



- Over (+) or under (-) valuation euro against dollar vs % change euro against dollar

Source: LSEG Datastream, ING Economic Research

...but uncertainty might temporarily support the greenback



Source: LSEG Datastream, ING Economic Research

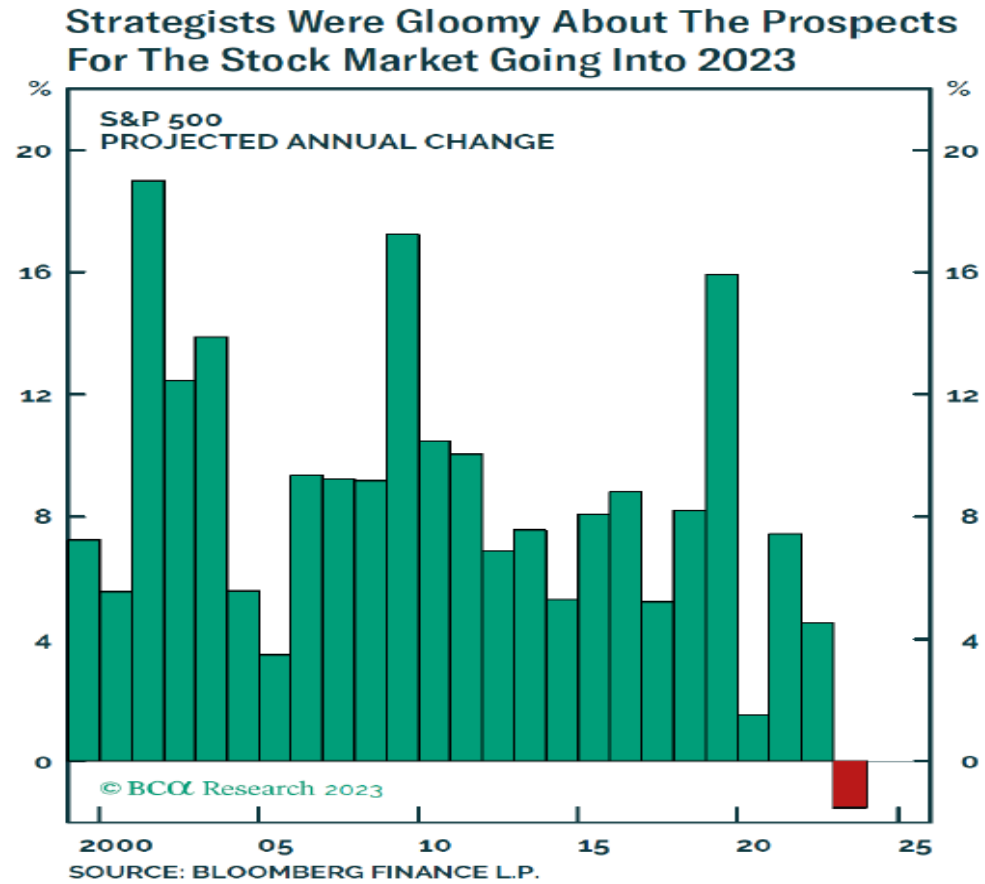
Financial Outlook 1H2024

The Landing: What is in store for the investor?

Steven Vandepitte, Senior Strategist, 8 December 2023

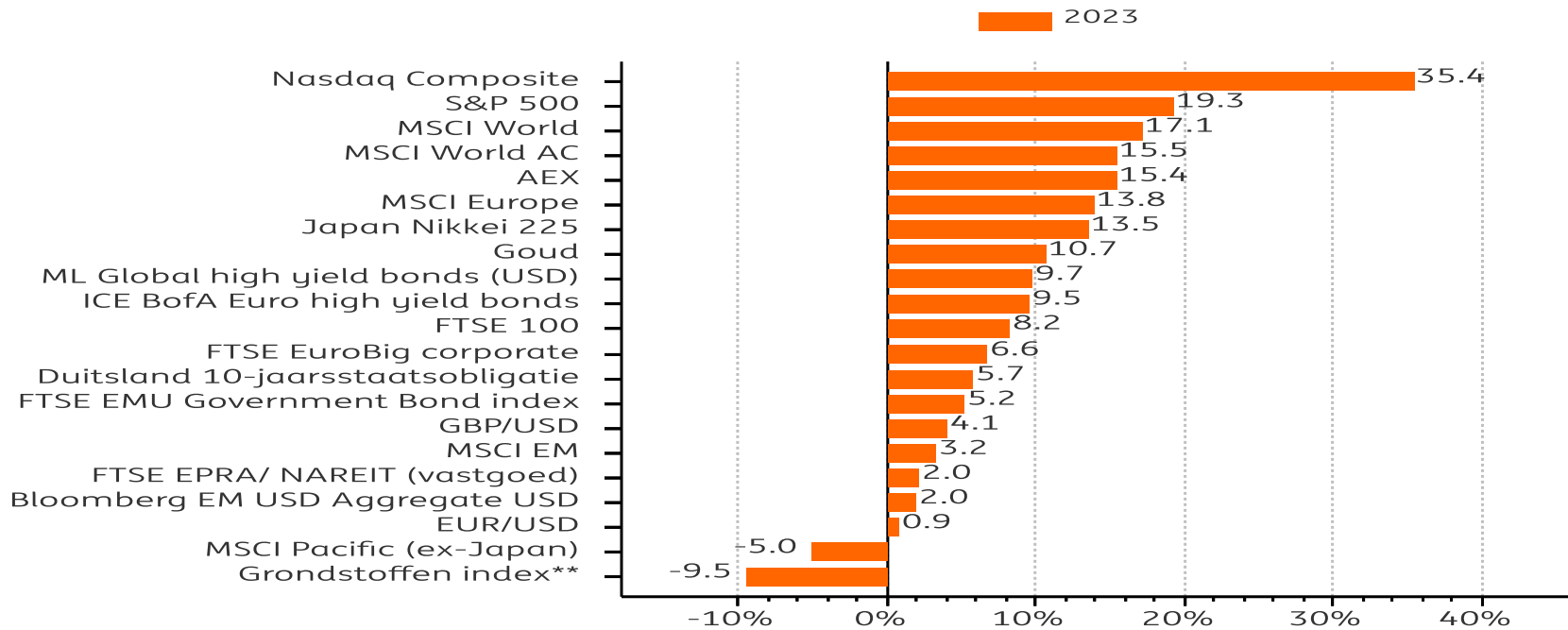


It paid off to be a contrarian



Scores on the Doors : 2023 was about recovering lost ground

returns up to 12/5/2023*



*Total return in euro, uitgezonderd goud, EURUSD, EMD en Global HY. Dit is de verandering van de spotprijs/benchmark

** EUR hedged TR

Source: LSEG Datastream, ING Investment Office

■ 2023

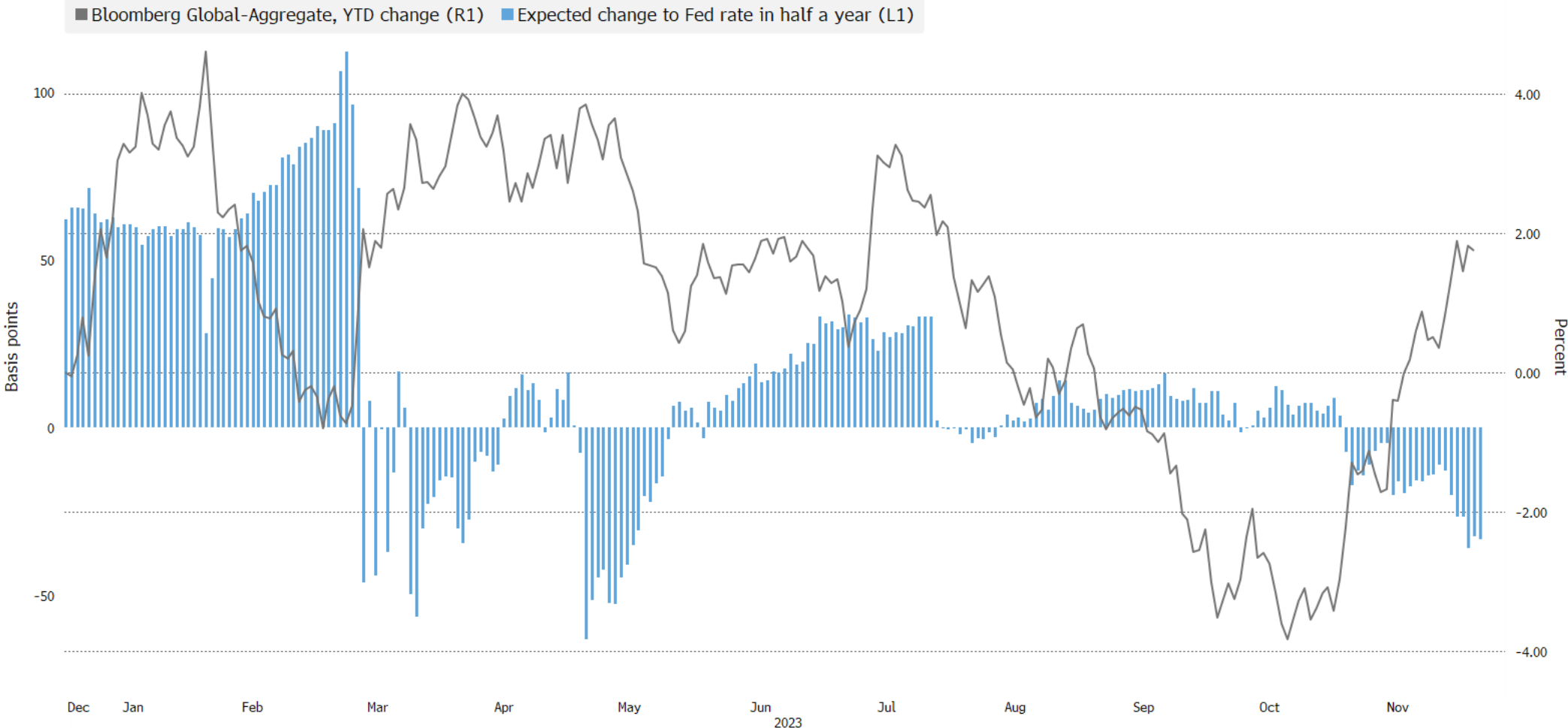
Bronnen: LSEGV Datastream, ING Investment Office

* Total return in euro, uitgezonderd goud, EURUSD, EMD en Global HY. Dit is de verandering van de spotpris/benchmark

** EUR hedged TR

Finally positive performances in fixed income

Benchmark index erasing 2023 losses as Fed rate-cut bets surge



Source: Federal Reserve, Bloomberg

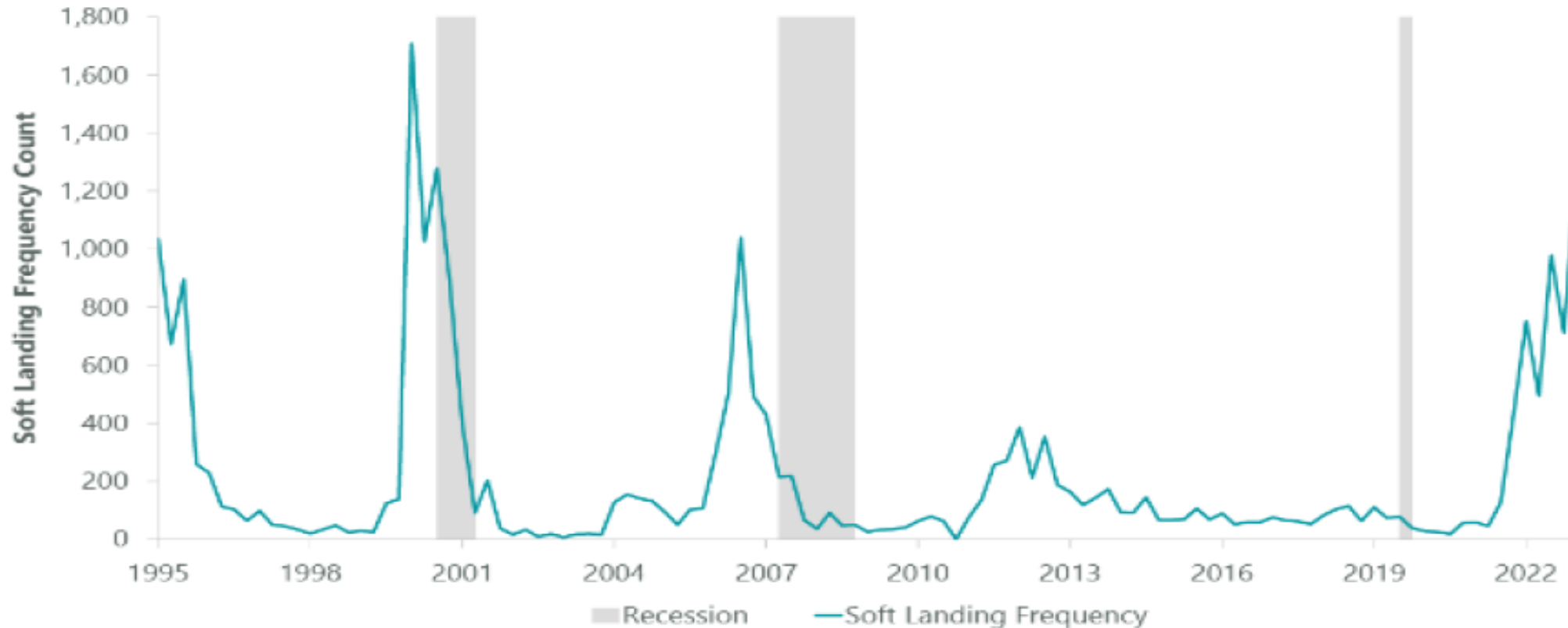
LEGATRUU Index (Bloomberg Global-Aggregate Total Return Index Value Unhedged USD) Global agg & cuts Daily 29DEC2022-05DEC2023

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The market's baseline scenario is for a soft landing

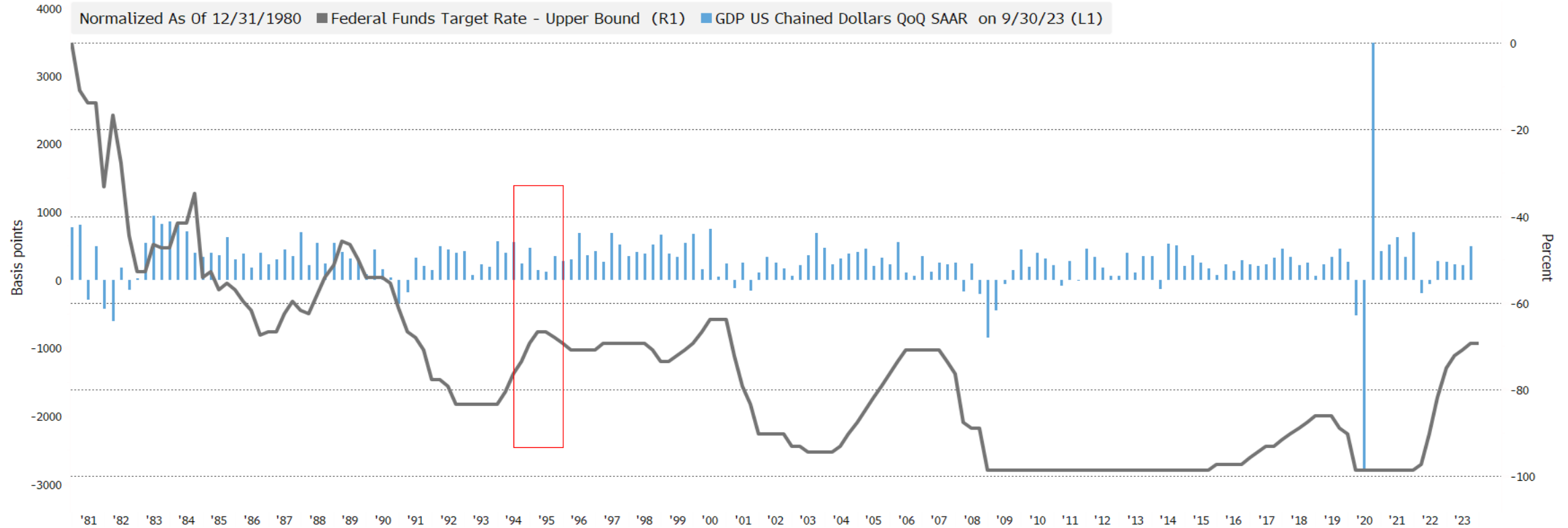
Exhibit 1: It Always Starts as a Soft Landing



Note: Soft landing frequency is the count of mentions of the term "soft landing" in company filings, transcripts, and presentations since 3Q95. Data as of Sept. 30, 2023. Source: NBER and Bloomberg.

The history of soft landings shows it's rare but not impossible

43 Years, One Soft Landing Only Greenspan, mid-90's clearly pulled it off

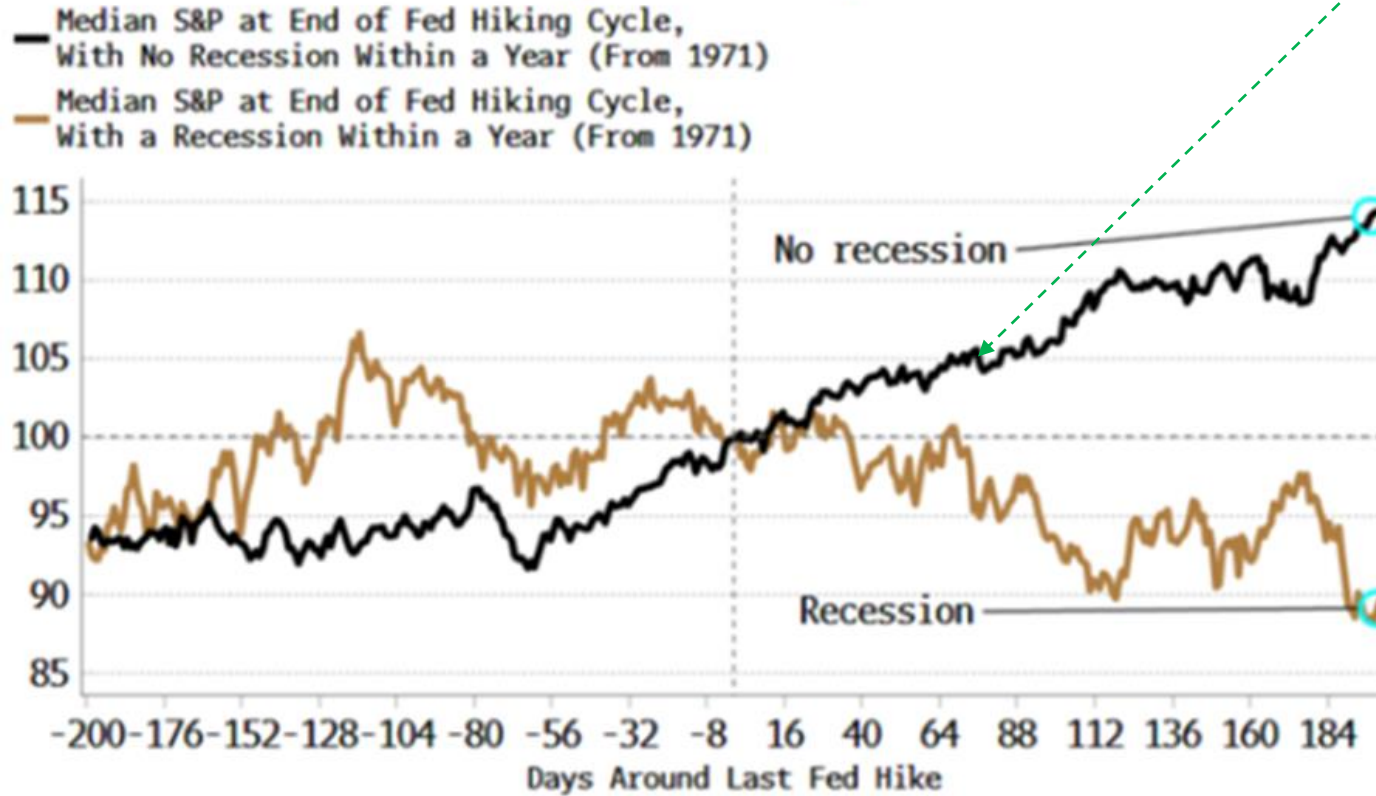


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The stock market bulls are seeing the positive side of things

US stocks rise through last Fed hike, unless a recession

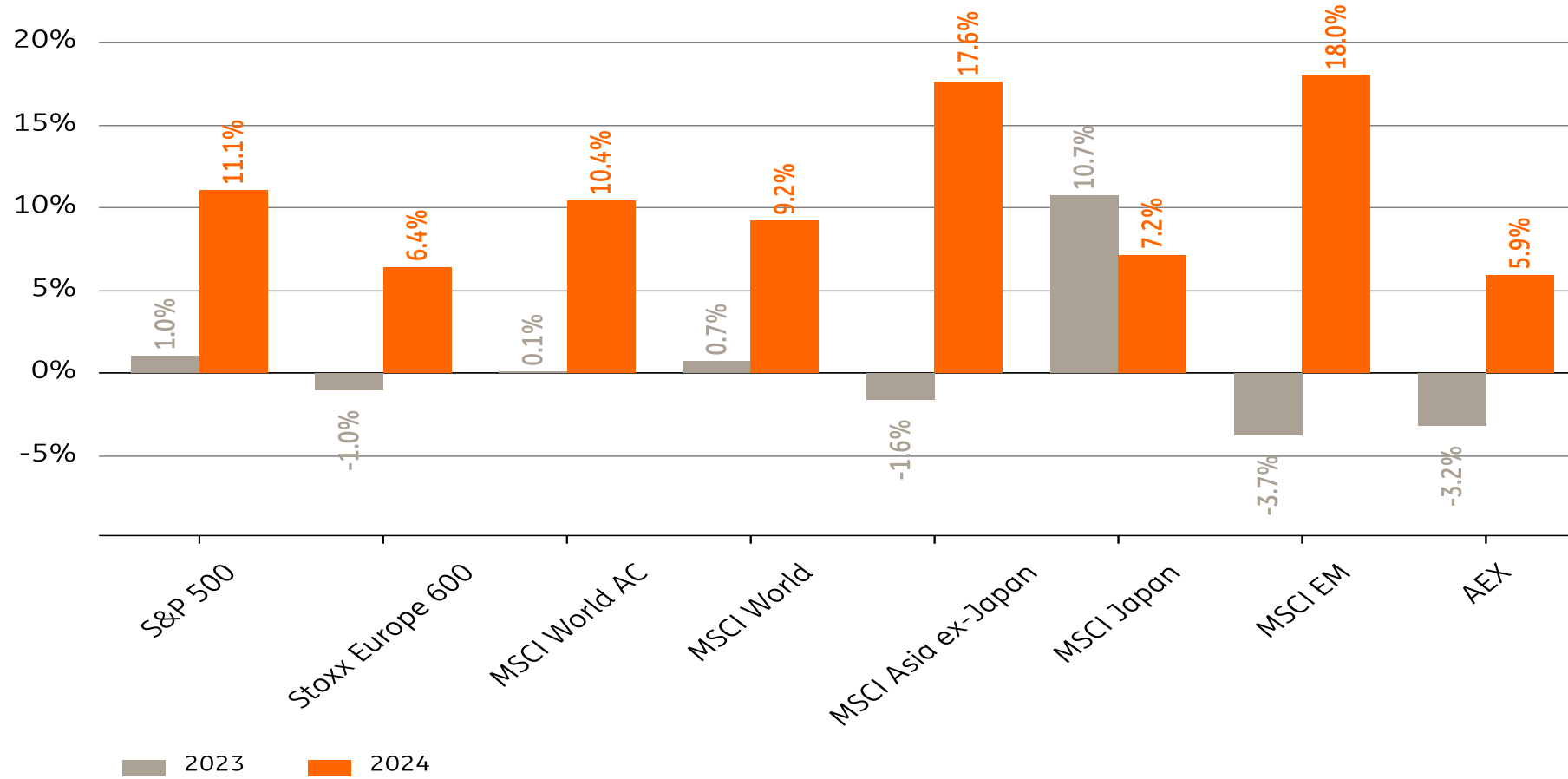


Source: Bloomberg

Earnings growth back to positive

Earnings growth expectations for main regions

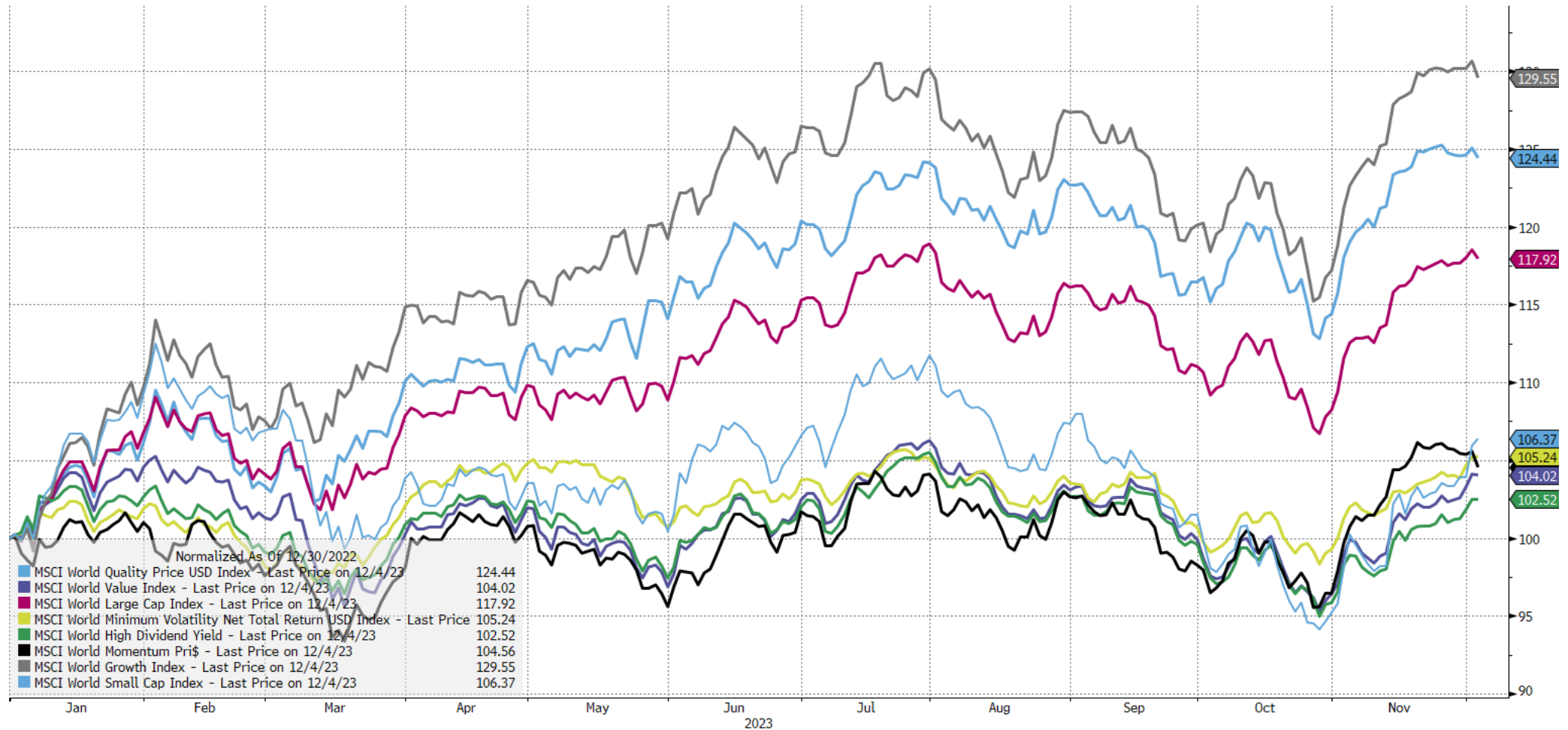
per calendar year (IBES)



Source: LSEG Datastream, ING Investment Office

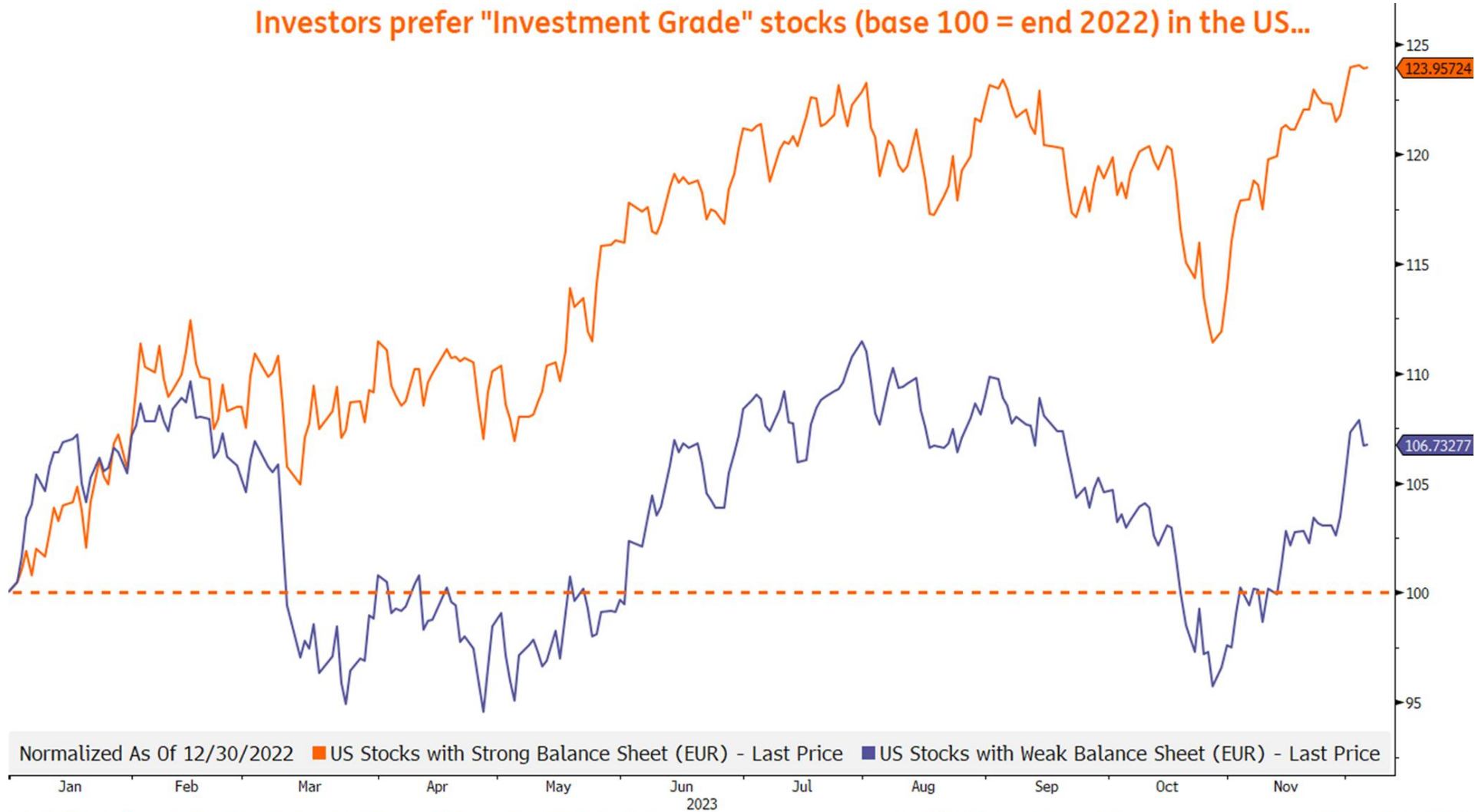
Factors to watch : Large Cap, Quality, Growth

Evolution of investment styles



Strong balance sheet first

Investors prefer "Investment Grade" stocks (base 100 = end 2022) in the US...



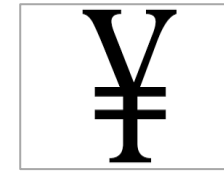
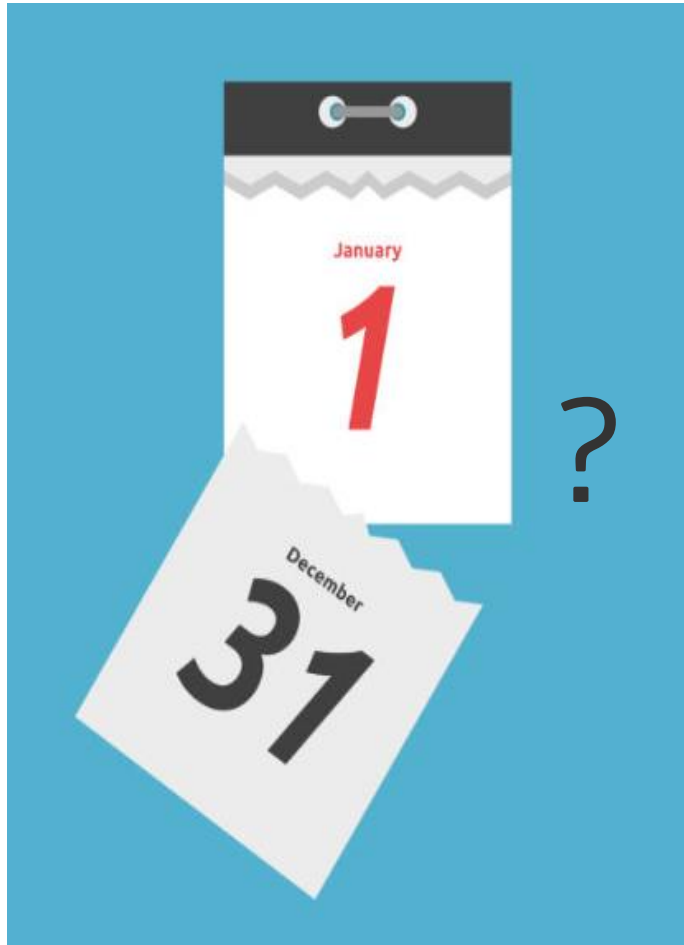
Normalized As Of 12/30/2022 ■ US Stocks with Strong Balance Sheet (EUR) - Last Price ■ US Stocks with Weak Balance Sheet (EUR) - Last Price

GSTHSBAL Index (Strong Balance Sheet US) good bad stk eu us 23 Daily 30DEC2022-06DEC2023

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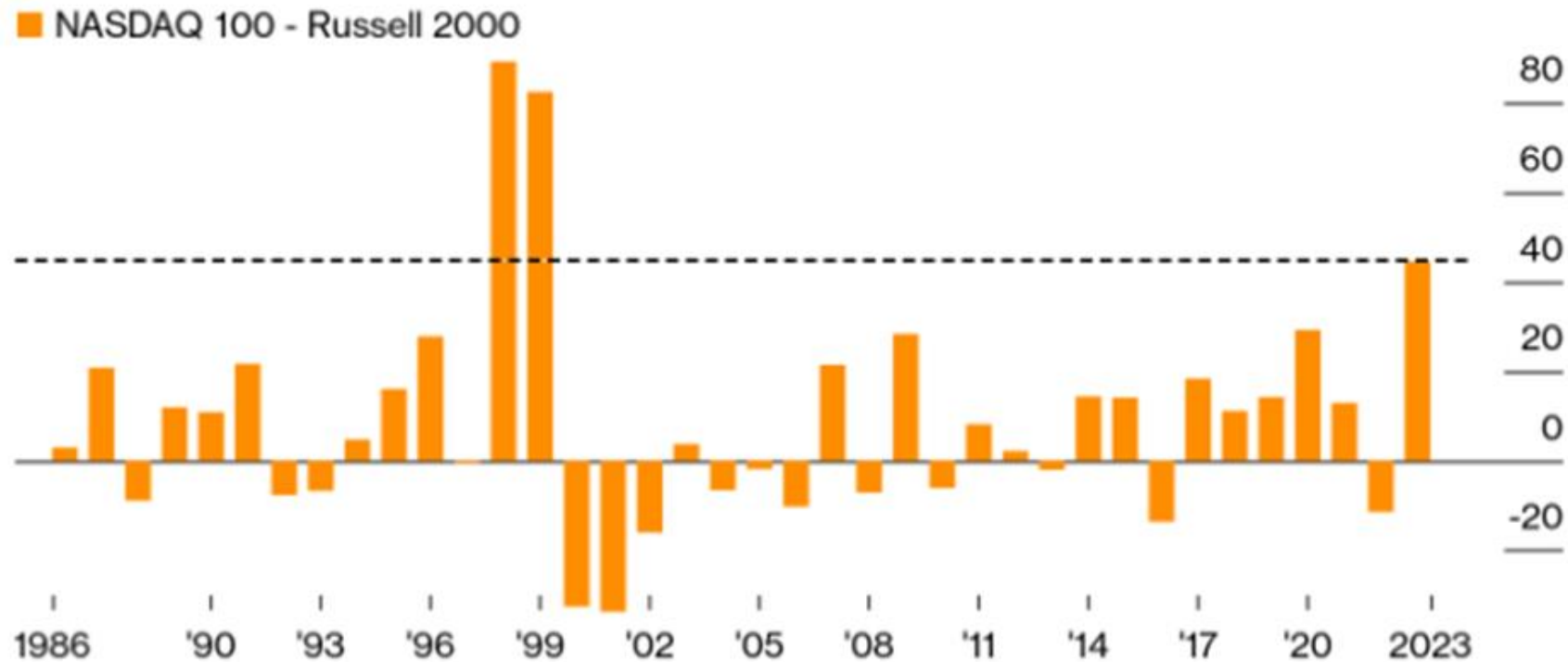
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The best laid plans of mice and men..... often go awry



New leadership in 2024 ?

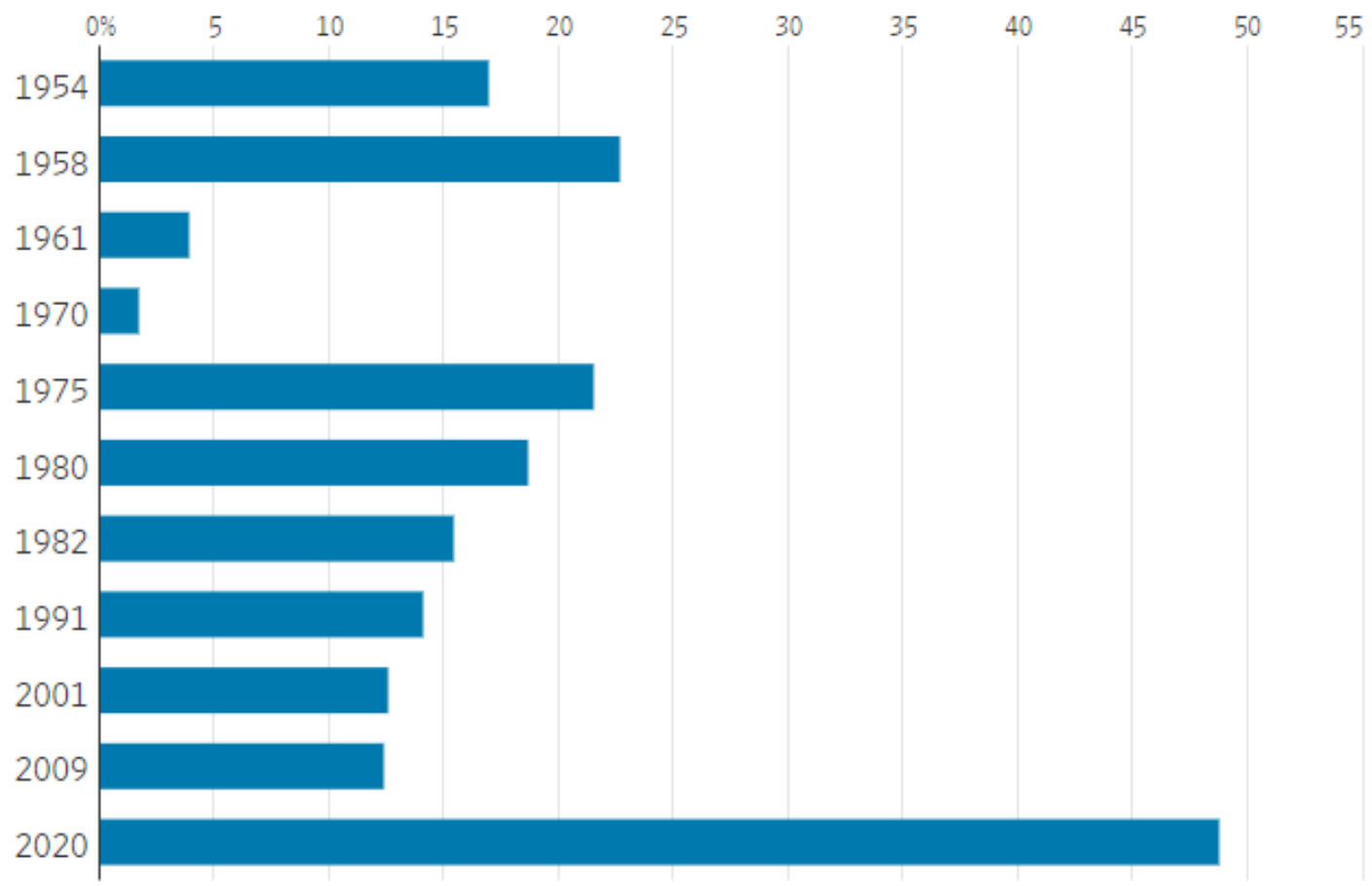
US Tech stocks outperform small caps by the widest margin since 1990s



Source: Bloomberg

Small caps will be attractive again once we get more visibility around the 'landing'

Outperformance of U.S. small caps v. large caps in the 12 months following a recession



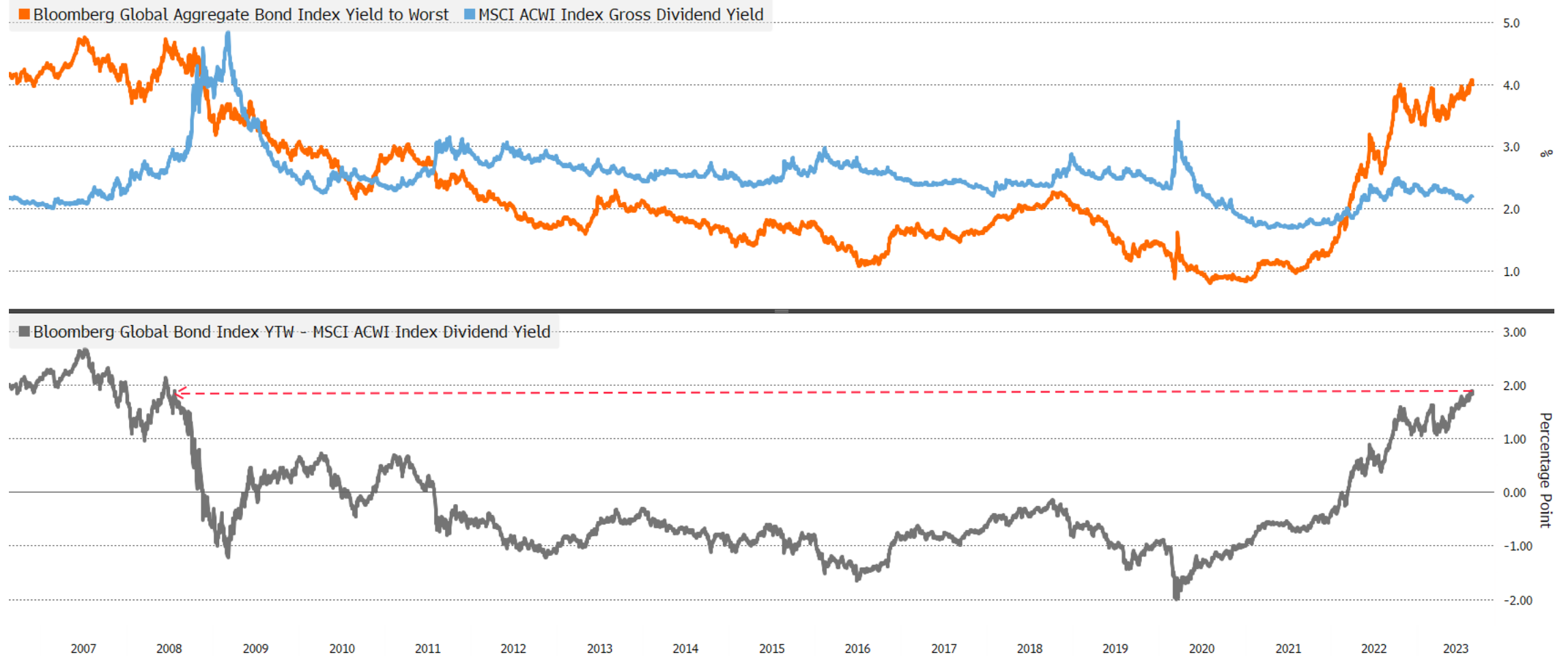
Note: Smallest 30% vs largest 30%
Source: MSCI

An aerial photograph of a winding asphalt road through a forest. The trees are in various stages of autumn, with some showing bright yellow and orange, while others are still green or dark blue. The road curves through the landscape, creating a series of loops and turns. The lighting is bright, suggesting a sunny day.

The 2024 rate scenario

TINA no more

Bond, Stock Dividend Yield Gap at Widest in 15 Years



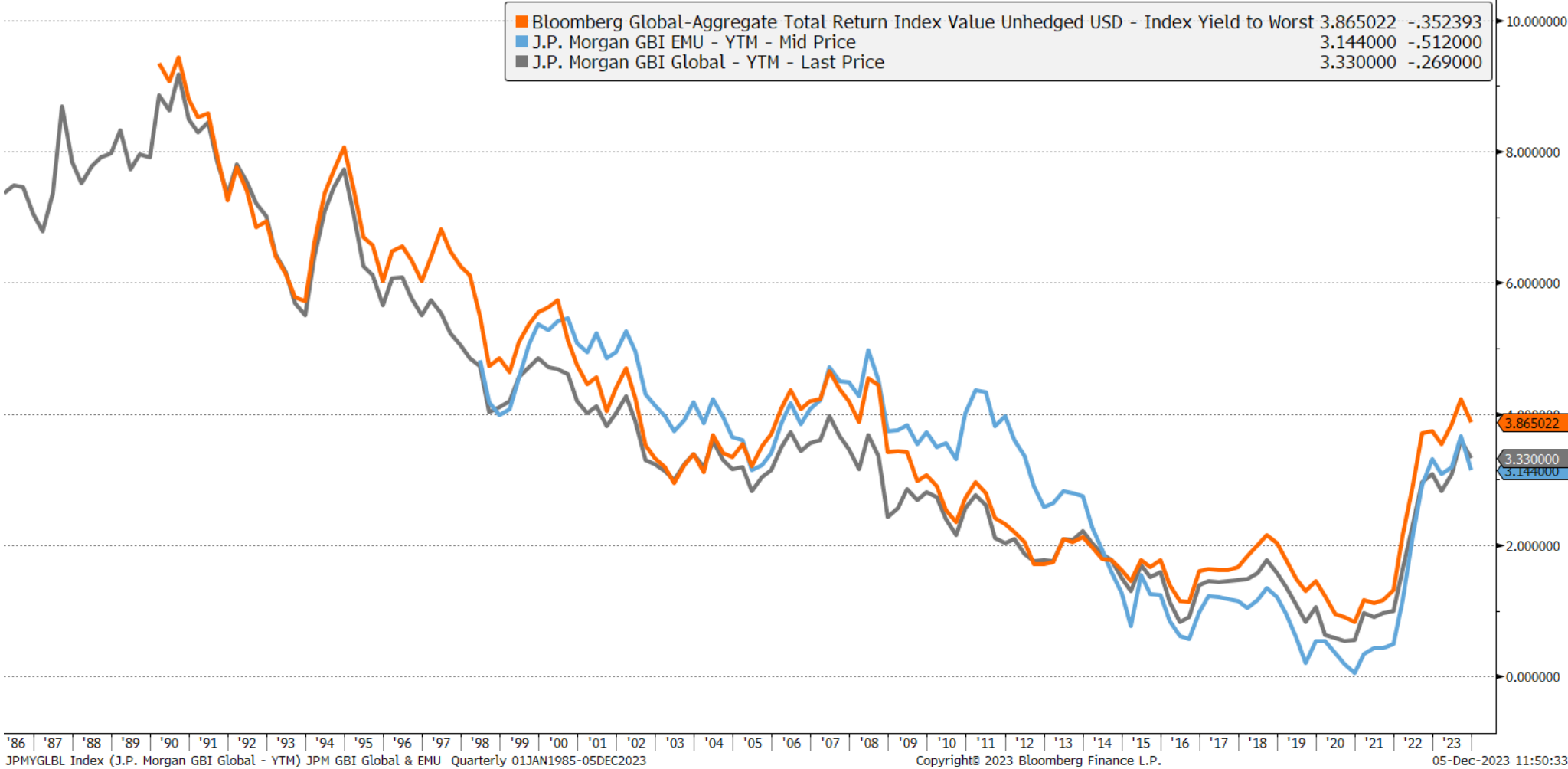
Source: Bloomberg Indices

LEGATRUU Index (Bloomberg Global-Aggregate Total Return Index Value Unhedged USD) YTW-Div Yld Daily 18AUG2006-23AUG2023

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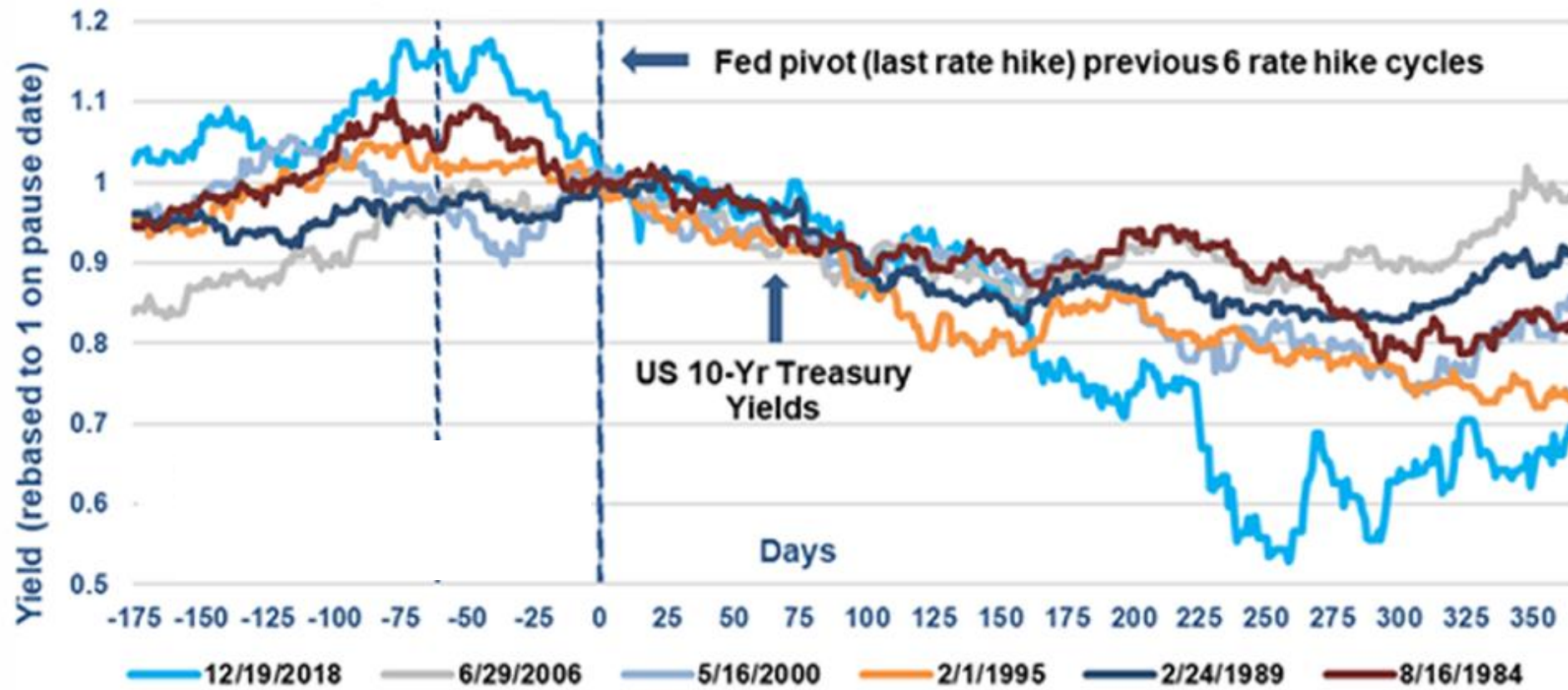
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The starting point : yields not seen since... 2007



It's mostly down in yield after the ultimate rate hike

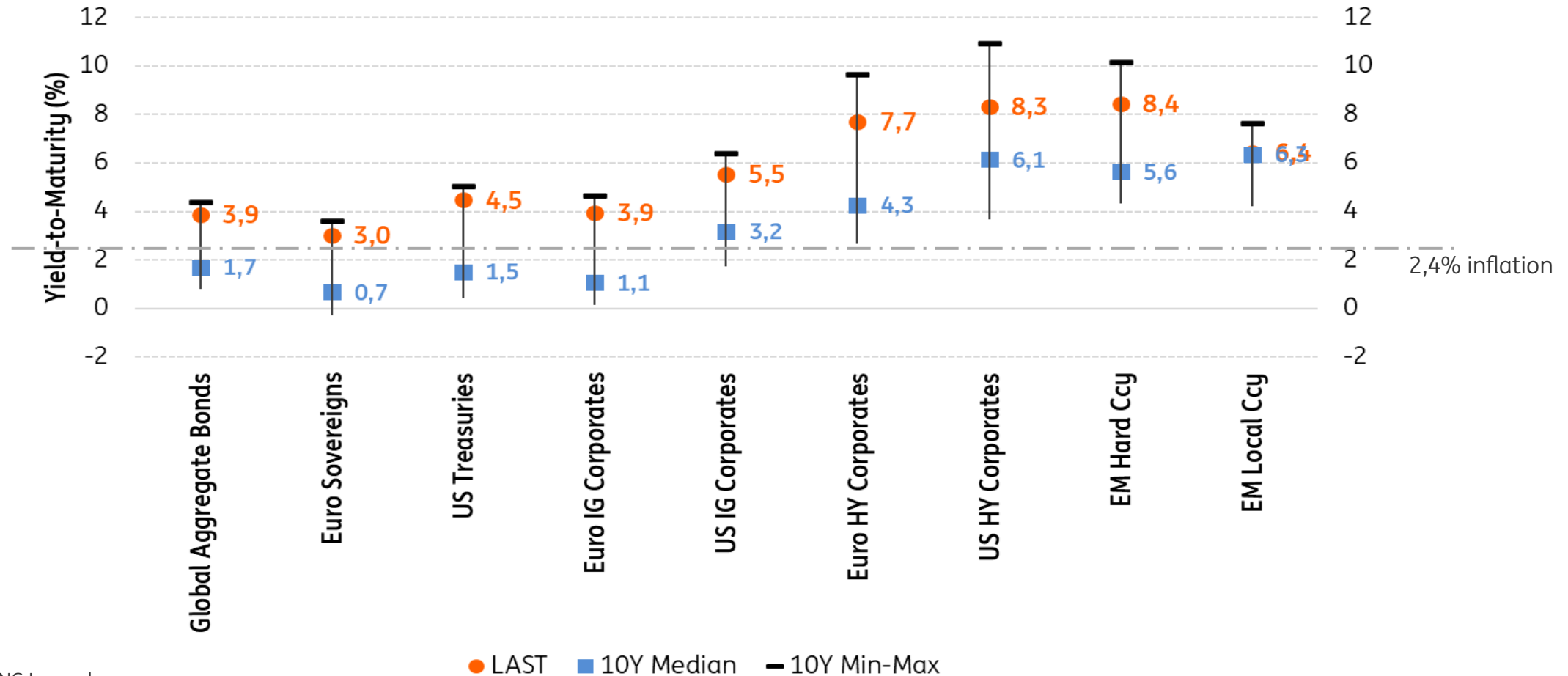
US 10-Year Treasury Yields after the Fed Paused



Source: Bloomberg

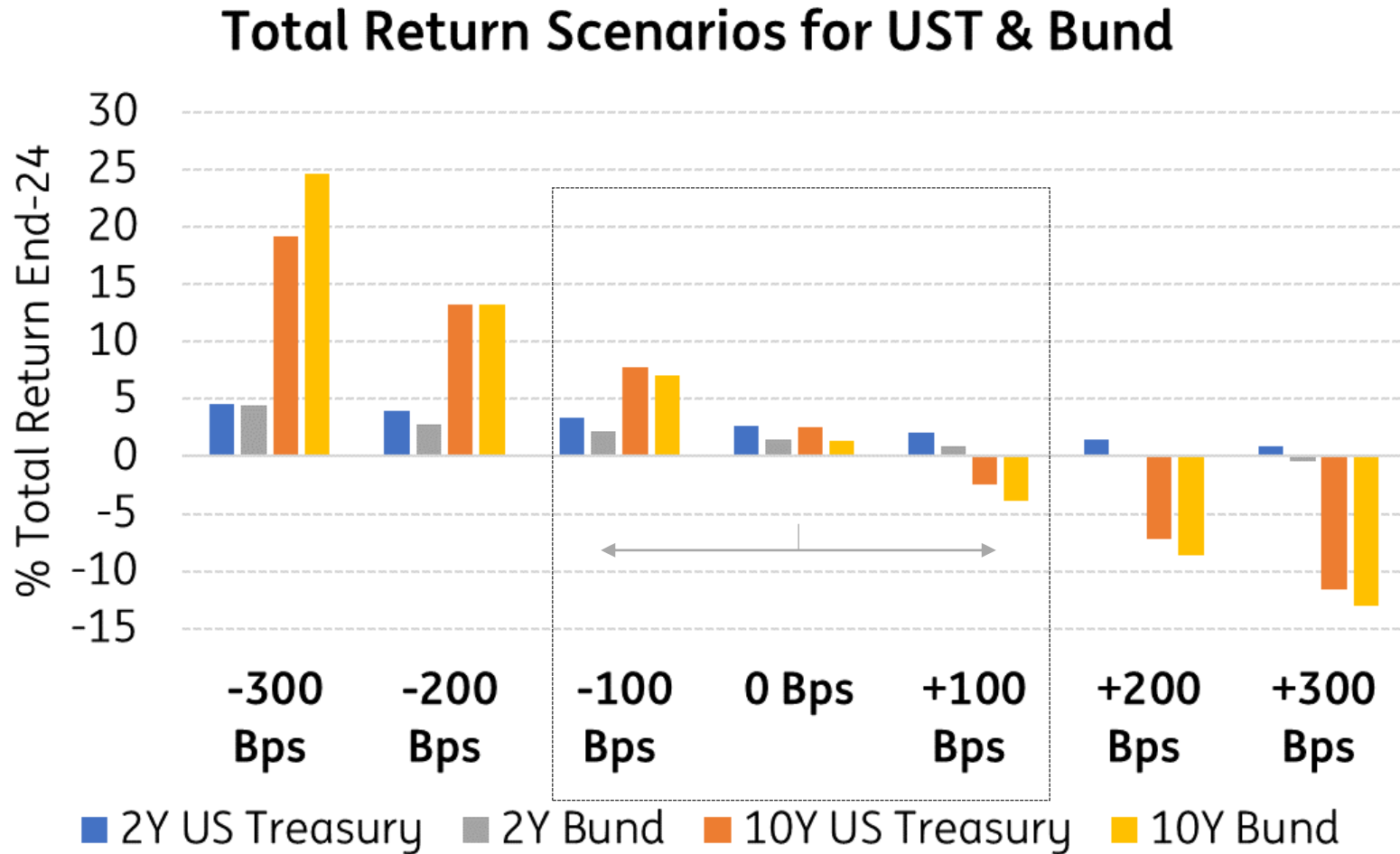
It's now also about the all-in yield for most segments

Yield-to-Maturity across fixed income segments



Source : ING Luxemburg

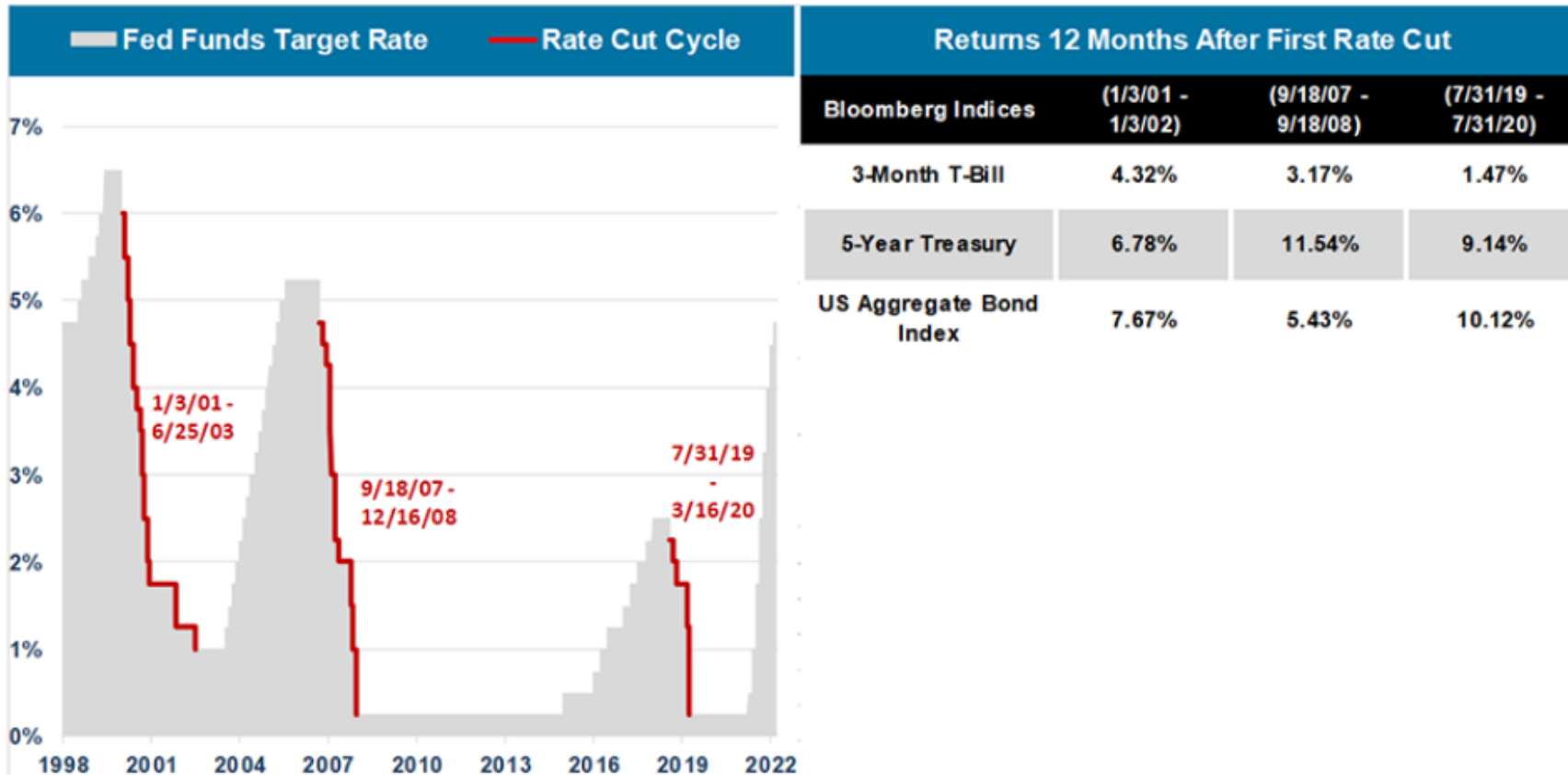
There's an asymmetry in pay-off



Source : ING Luxembourg

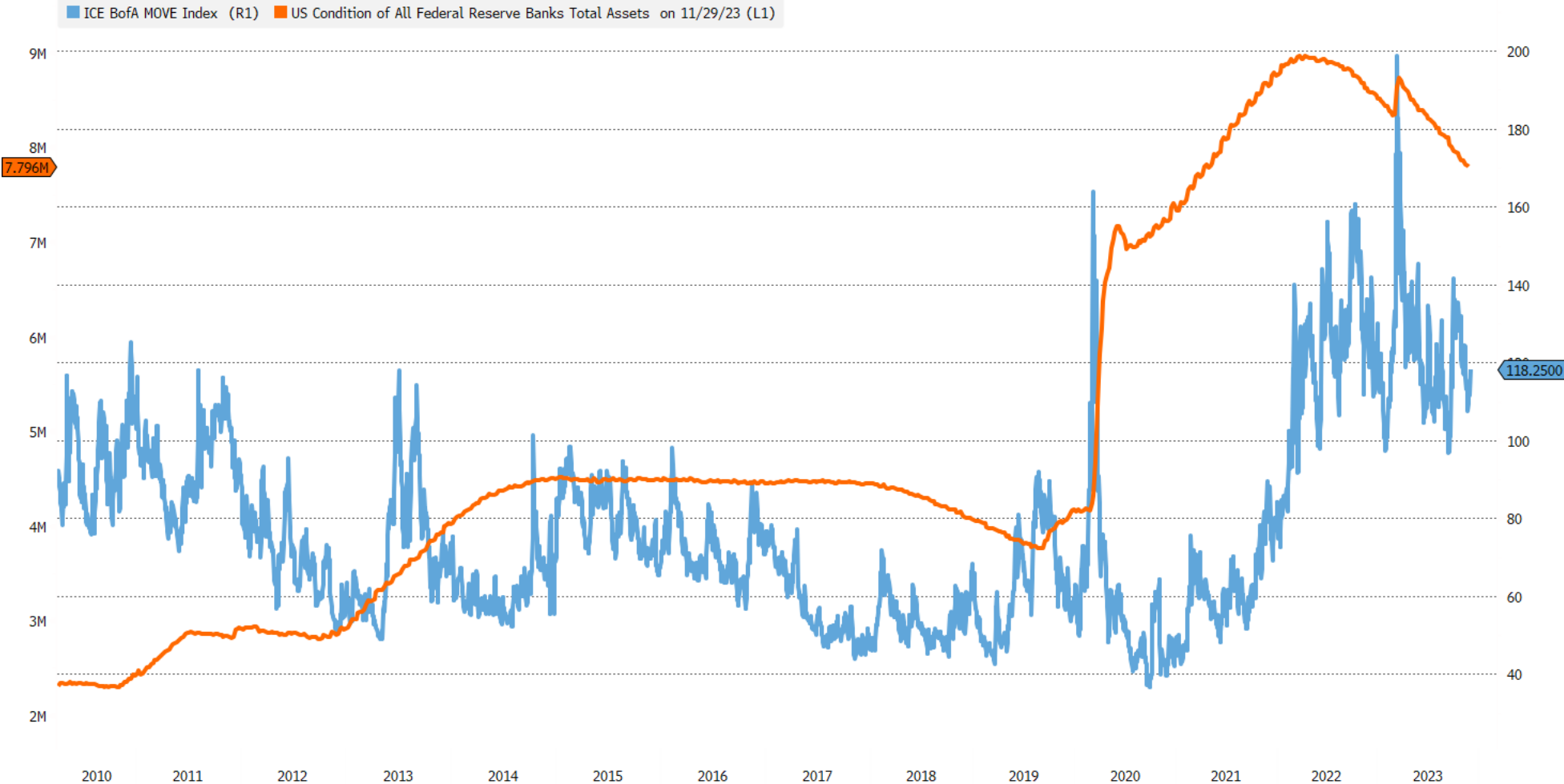
Cash probably won't be king for long

When the Fed Cuts Rates, Intermediate Bonds Have Benefited



Source: Bloomberg

One caveat : treasuries are trading like meme stocks currently



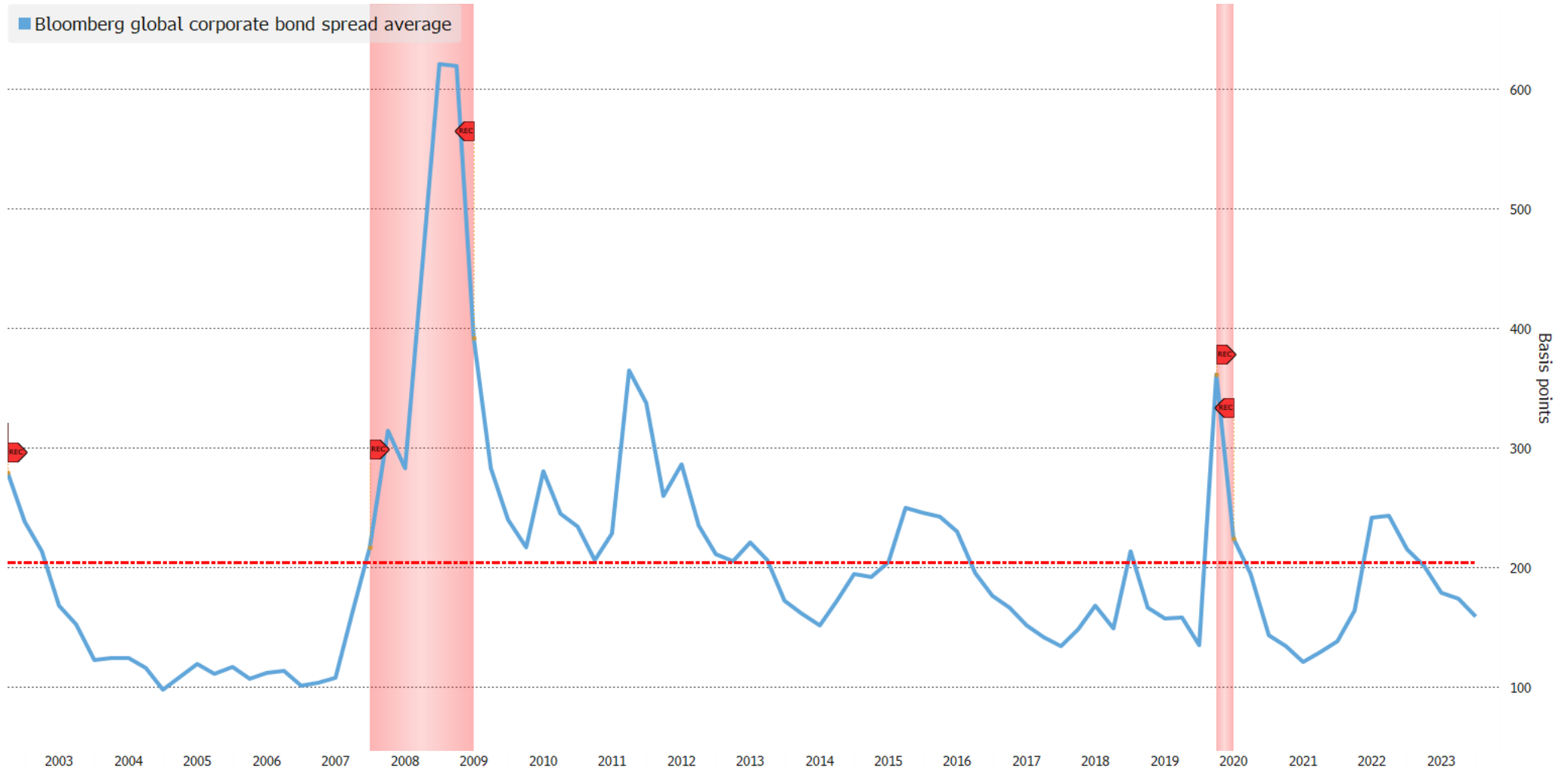
Source: Bloomberg, Federal Reserve
MOVE Index (ICE BofA MOVE Index) Move farbast Daily 02APR2010-05DEC2023

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IG spreads are discounting a rather soft landing



Source: Bloomberg

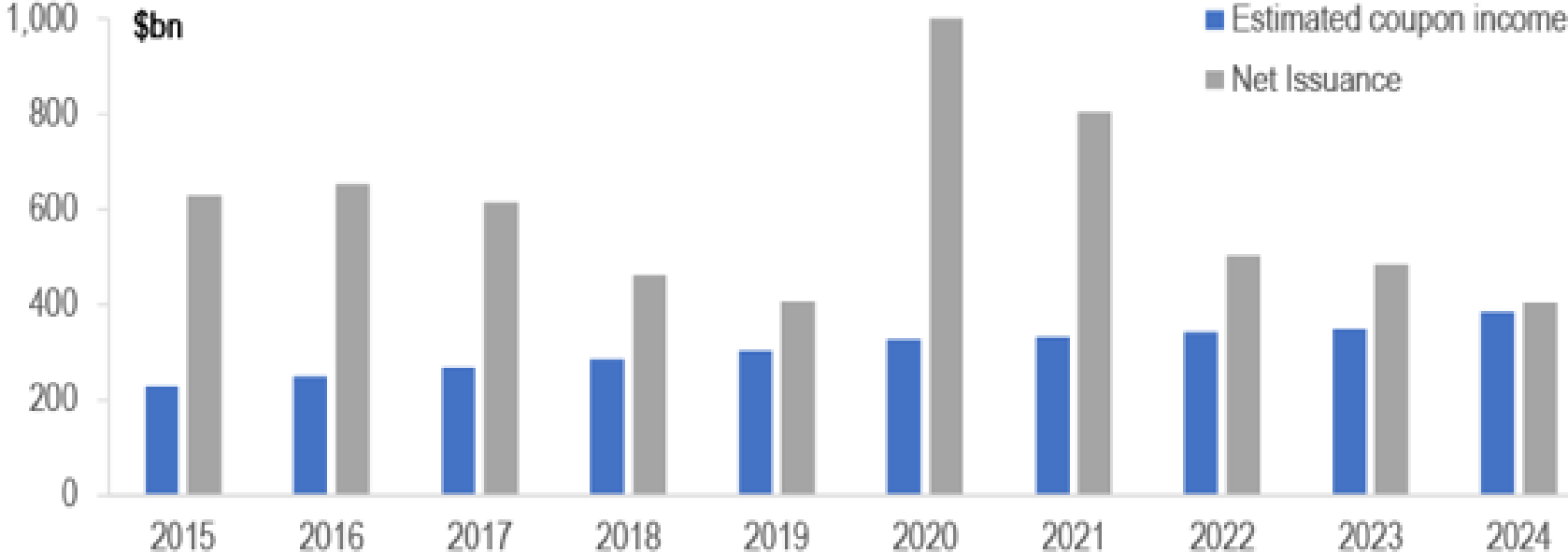
I04064US Index (Bloomberg Global Credit Corporate Total Return Index Value Unhedged USD) global corp spreads Quarterly 01JAN2001-05DEC2023

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05-Dec-2023 11:51:15

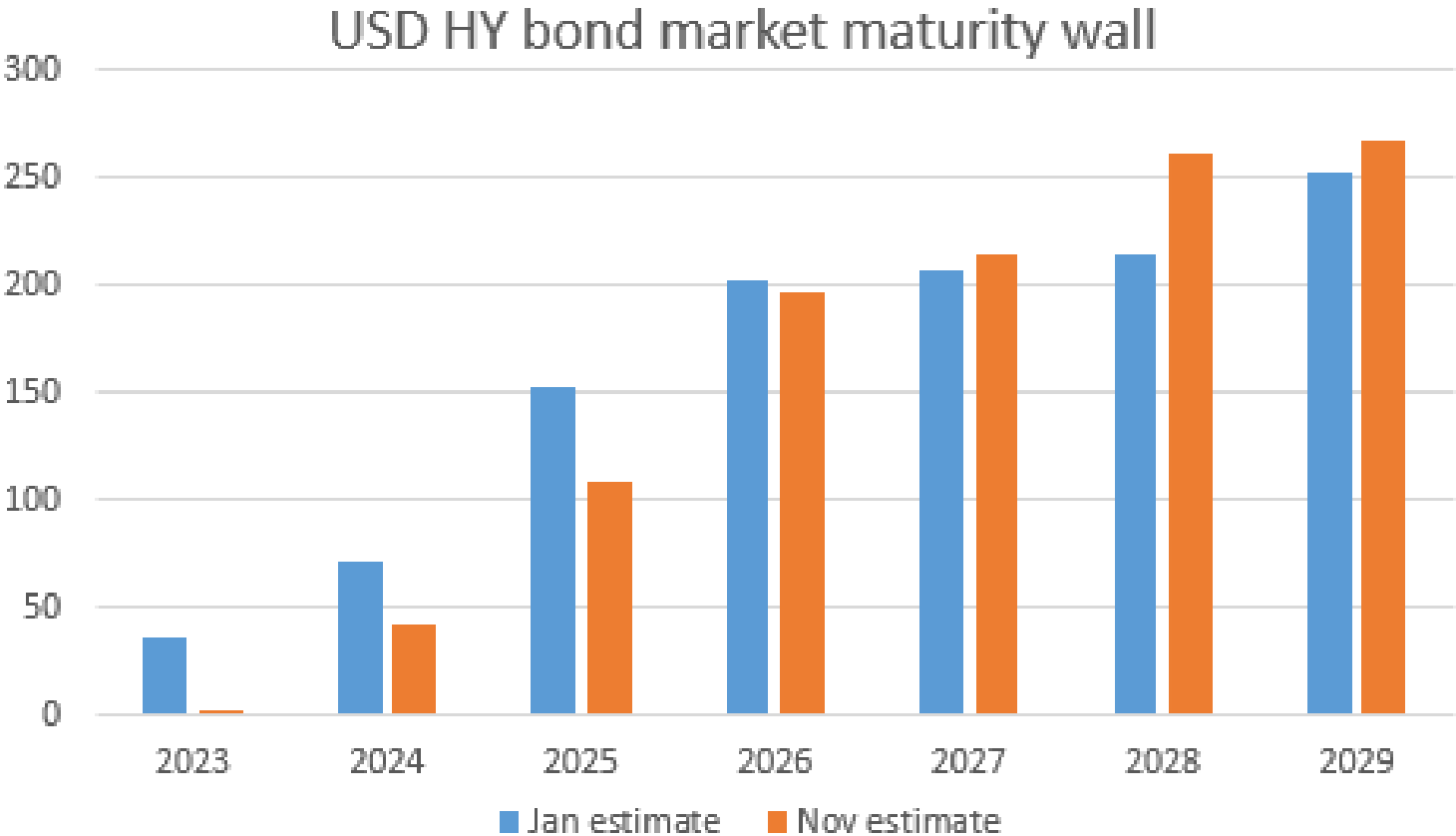
High Grade corporate issuance under control

Figure 1: Net issuance will barely exceed coupon income next year



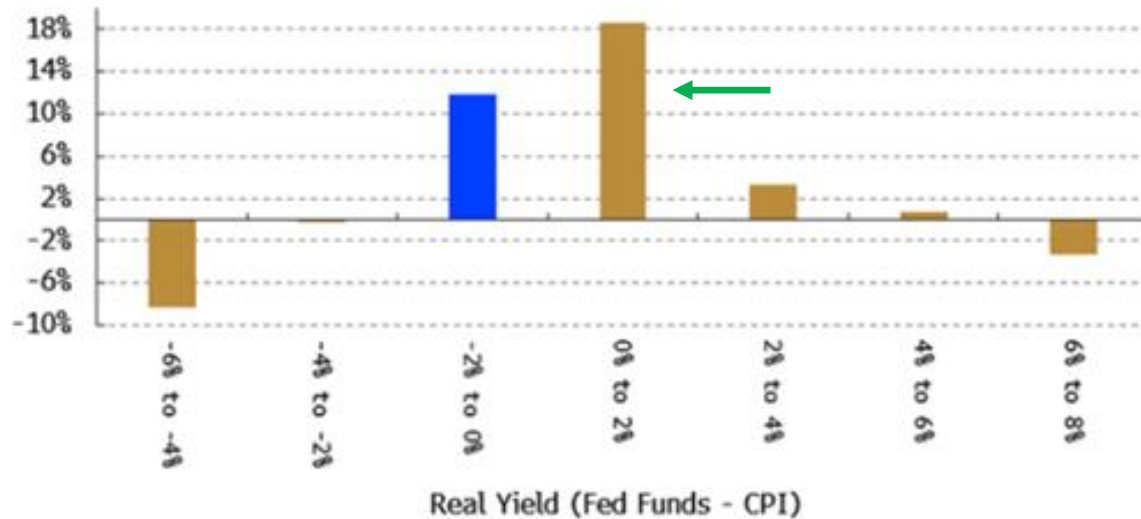
Source : J.P. Morgan.

The HY maturity wall has gotten smaller than initially projected



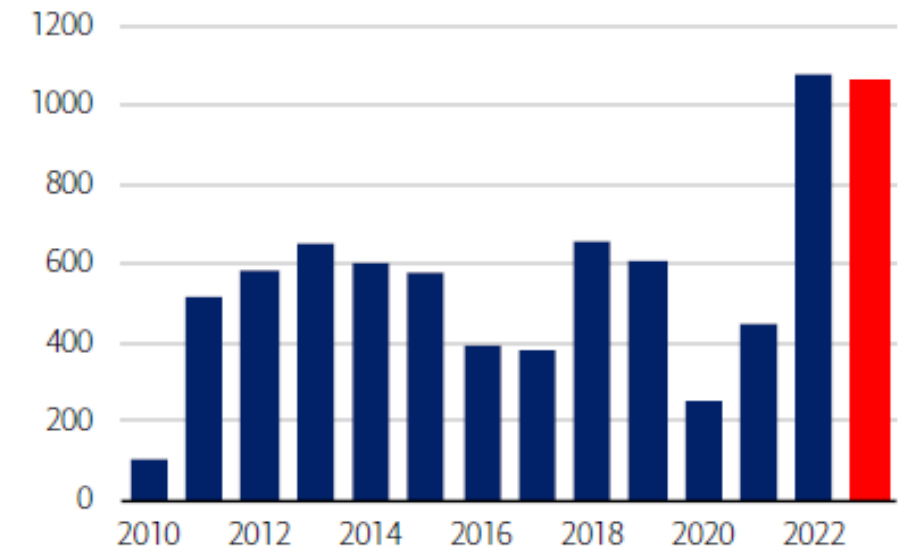
Preference for precious over industrial metals. Gold has an inverse relationship with real yields

12m Forward Return Given Starting Spot Real Yield (Fed Funds - CPI)



Source: Bloomberg

Exhibit 22: Central banks on pace to buy > 1,000 tons of gold again
Annual central bank gold purchases, metric tons



Source: BofA Research Investment Committee, Bloomberg, Metal Focus Data Ltd. Note: 2023 data (red bar) is annualized

Key takeaways

- With inflation down and peak CB hawkishness behind us, markets have adopted a 'soft landing' scenario for 2024
- Better earnings growth and mostly lower rates should support equities
- Bonds are back anywhich way you look at it. But volatile...
- Cash is unlikely to remain king for very long. Buy duration
- "Quality" to get us through the more tense periods

Q&A



Overview of current allocation

■ 21/11/2023
 ■ Previous allocation

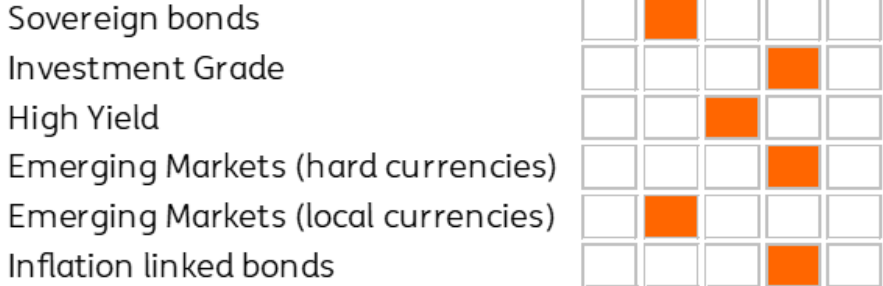
Asset Allocation



Regional Allocation



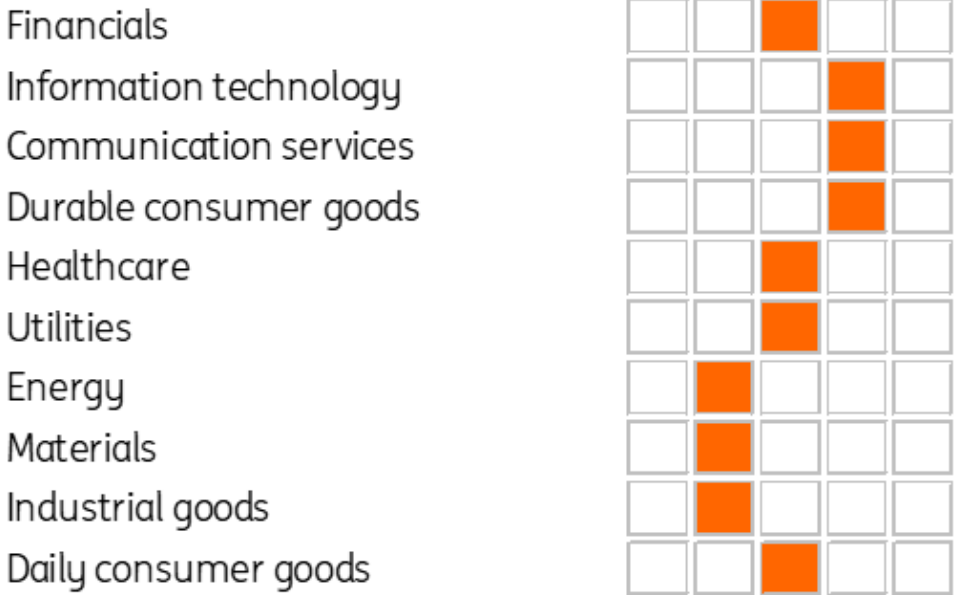
Bonds Allocation



Sector allocation :

■ 21/11/2023
 ■ Previous allocation

Sector Allocation Europe



Sector Allocation US



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