

## “Forget bears and bulls: 2019 is shaping up to be a bunny market”

*“Market experts like to describe the exchange’s different moods and seasons in terms of animal imagery. 2019 is shaping up to be the Year of the Bunny!”*

### Bulls, bears and rabbits



- A bull market refers to the way the animal in question raises its horns when attacking, making it a symbol of share prices.
- Bears, by contrast, tend to strike downwards with their claws and hence stand for falling indices.
- Less well known is that there is also such a thing as a ‘bunny market’. Rabbits hop up and down, but never go far in the same direction.

### How is 2019 shaping up?

- With an upward cycle due to enter its eleventh consecutive year in April, the bulls are unlikely to charge much further – certainly not in the US, where profit margins are at a historical high and economic growth has peaked.
- At the same time, we shouldn’t be afraid of a bear market. These are only seen when the world economy tips into recession, which isn’t immediately in prospect.
- So a bunny market it is then? We’re not sure there’s any such thing in the animal kingdom, but we’re counting on a hefty rabbit with little horns: in other words, a market that will continue to climb a little higher, but not without some hops and jumps along the way.



### How come we're still optimistic?

- The earnings cycle doesn’t seem to have ended yet. There’s certainly still room for margins to improve in Europe: the weakening of the euro will boost the margins of lots of cyclical businesses, while rising interest rates (at last) can ratchet up earnings at the financials.
- With a price/earnings ratio of 15 in the US and just over 12 in the euro area, markets can hardly be described as expensive.
- TINA has been pensioned off in the US, but thanks to a dawdling ECB, she’s still going strong in the euro area, where dividend yield alone is already several times bigger than bond yields.
- Italy, the trade war and Brexit are all weighing on sentiment right now, but a positive development in one of these areas or even simple habituation could result in positive share prices.

### What is KBC choosing to emphasise?

- Our preference at regional level is the euro area with the stress on Germany, family businesses and high-dividend stocks: economic growth there is sufficiently dynamic to catch up with the US, a weaker euro will boost earnings figures and scope remains for improved profit margins and P/E ratios. We’re not writing America off: US growth remains powerful.

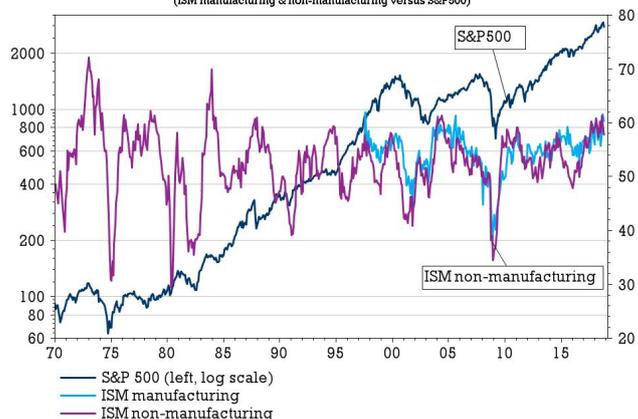
- Growth-sensitive businesses or defensive stocks? Selection is all-important this far into the cycle. Robust earnings growth and an acceptable valuation are what we're looking for, which takes us to the technology sector (partially incorporated in Communications Services since the GICS reform) and to the financial stocks. Don't forget the energy sector either: the growth markets' hunger for energy means that higher oil prices are here to stay, something that has yet to be priced into shares.
- As a long-term growth narrative, water remains a strong and stable theme.

Net profit margin in US and EU  
(non-financial companies)



Source: Thomson Reuters Datastream

Even bear market only occurs in a recession  
(ISM manufacturing & non-manufacturing versus S&P500)



Source: Thomson Reuters Datastream

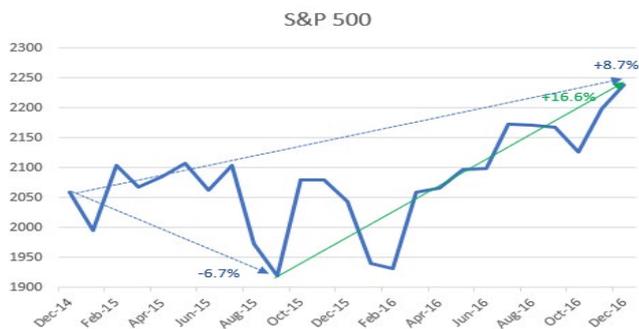
### How do you invest in a bunny market with little horns?

- What you definitely don't do is sit on the sidelines waiting for the right moment to buy. You can't time this and you risk missing out on returns. Parking places such as savings accounts and bonds don't earn you anything and they expose your savings to erosion by rising inflation.
- There's only one remedy for the fear of buying too high, and that's to spread your purchases over time. If you have a large amount of capital to invest, do so in several tranches. But don't wait too long either, because you're then losing out on returns. If you have a monthly cash surplus you don't know what to do with, put it in a dynamic investment plan. Sometimes you'll buy low and sometimes high, but on average you'll be fine and you'll build up a nice capital sum.

### Spreading over time makes sense!

The example shown below of a frisky S&P500 in 2015–16 is a good illustration.

- **+8.7%:** You bought at the beginning of the year; at the end of the ride you have a nice return, but you dipped well into the red along the way.
- **+16.6%:** Your timing is perfect: you bought at the low and achieved the best return.
- **+9.1%** You spread your investment over 12 months; you avoided a sharp dip and earned a better return than if you'd gone all-in at the beginning.



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