

Outlook H2 2020

Peter Vanden Houte
Luc Charlier

23 June 2020



Covid-19 and beyond

June 2020

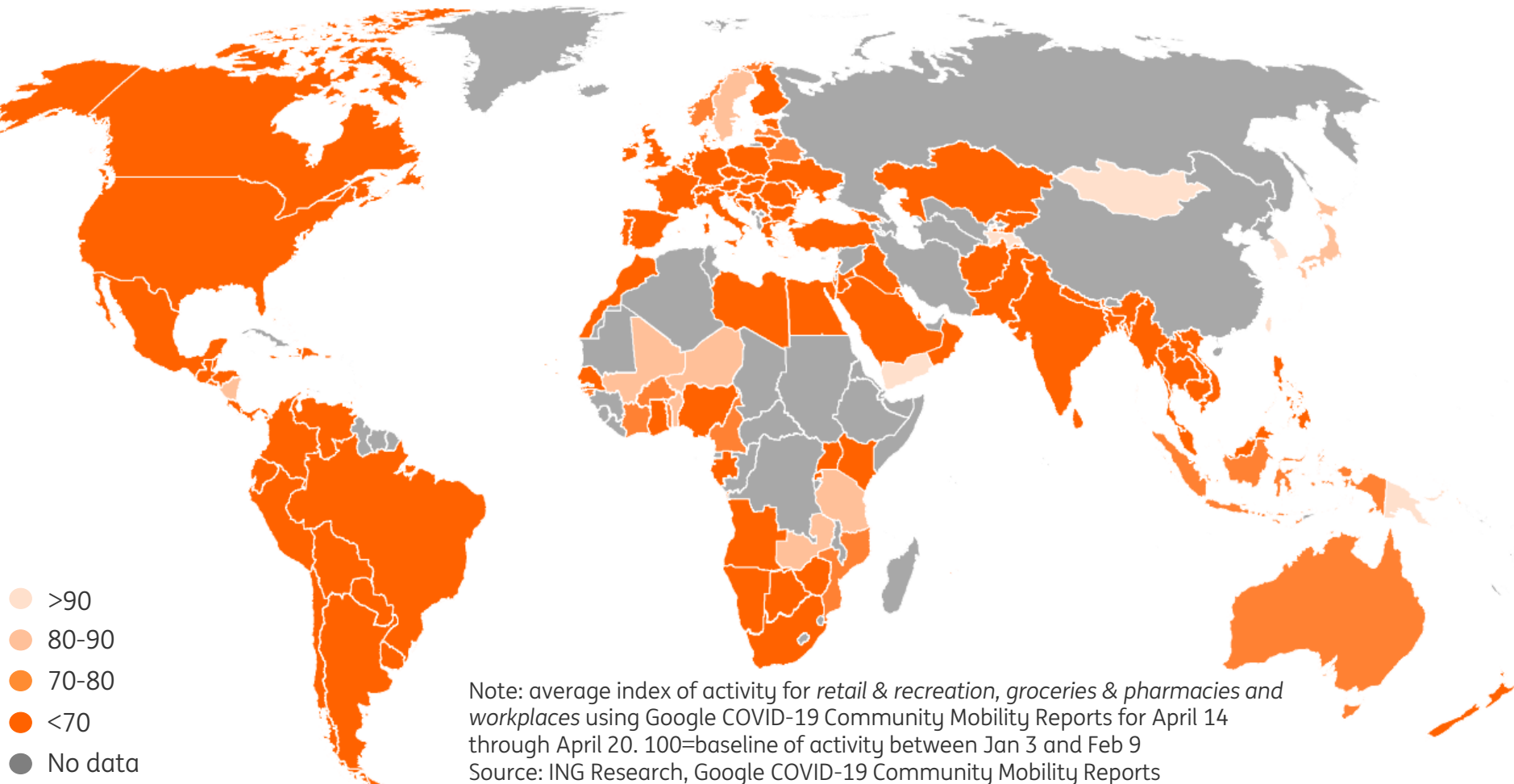
Peter Vanden Houte
Chief Economist ING Belgium



thinkforward

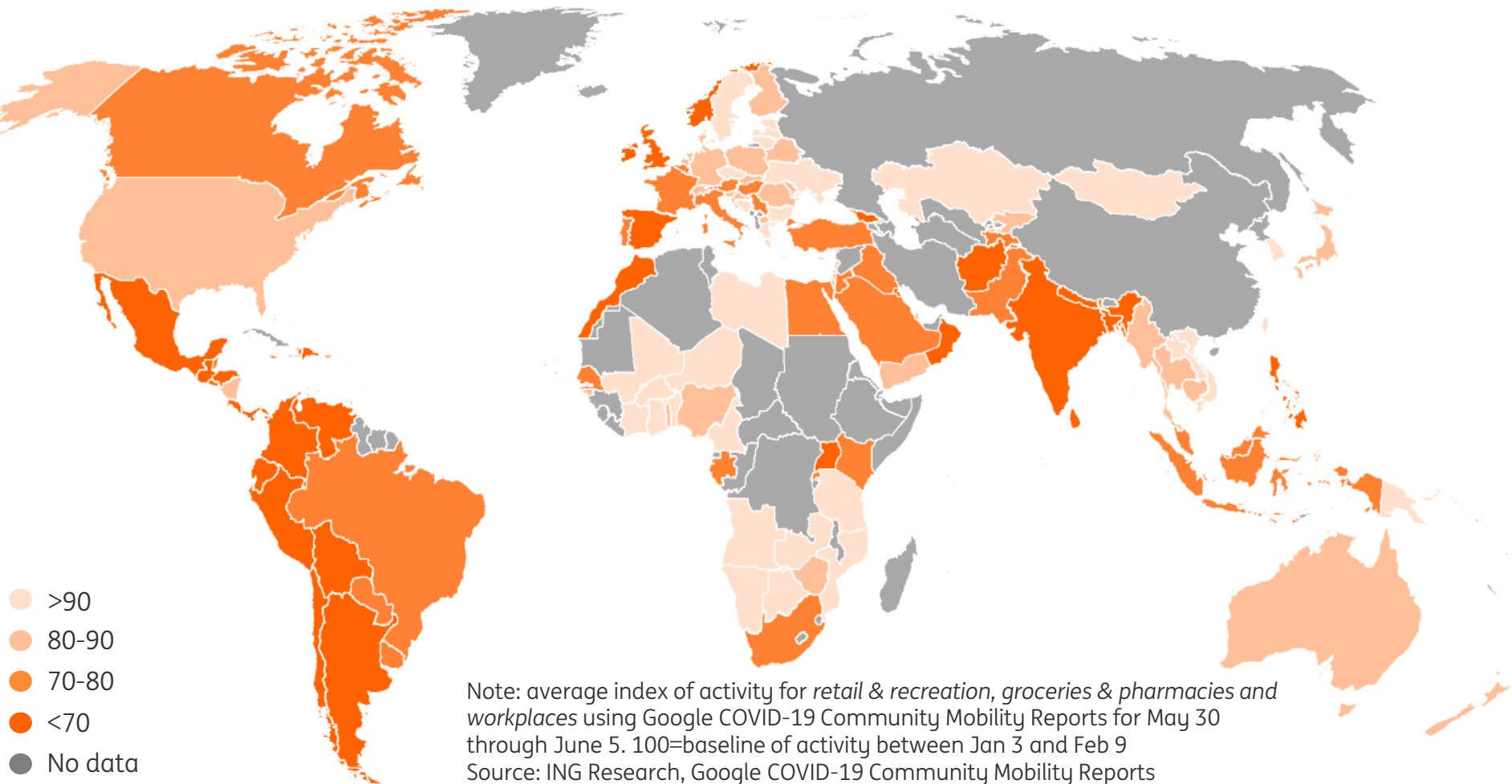
A true worldwide lockdown...

Lockdown index, April 14-April 20

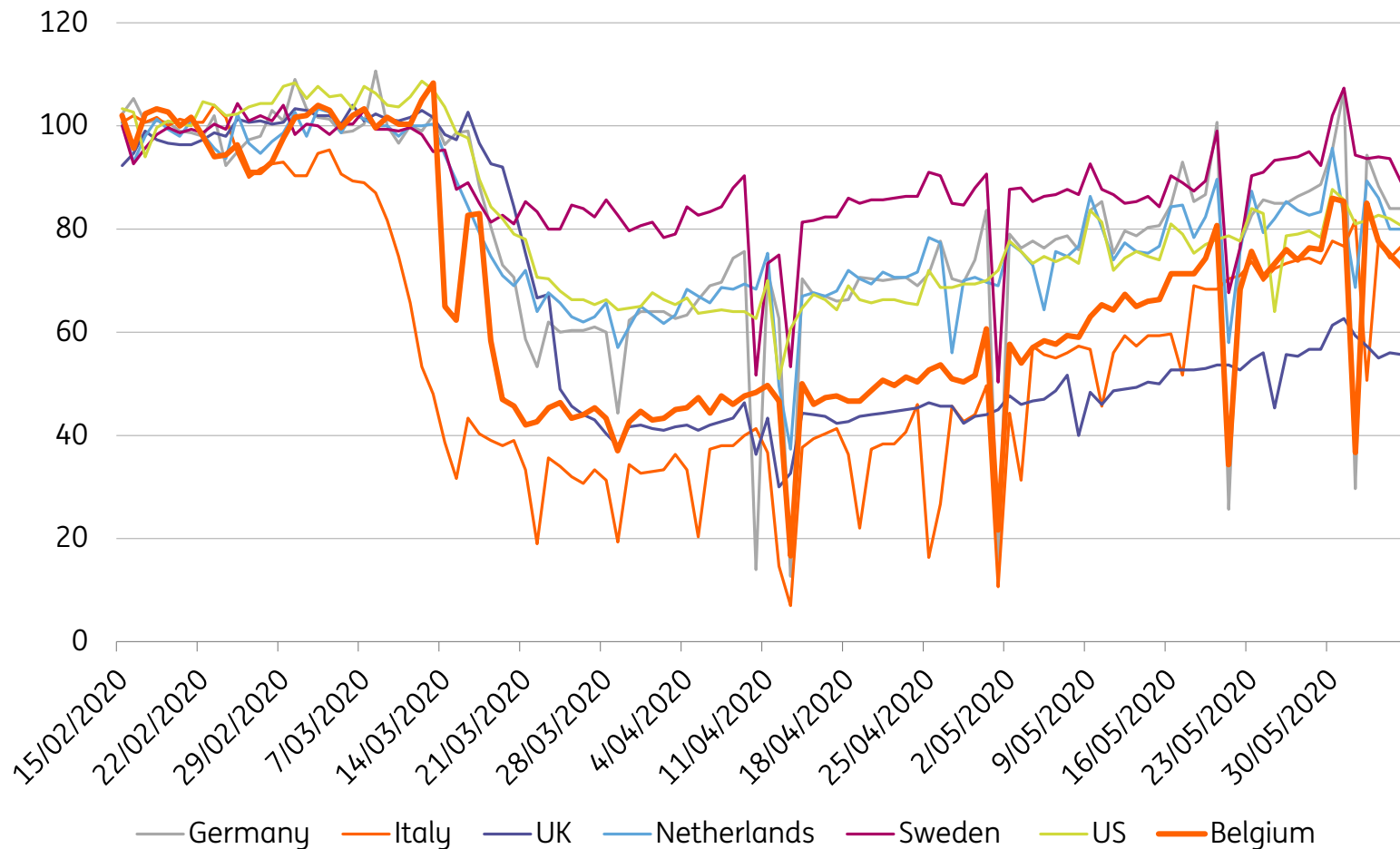


A true worldwide lockdown...

Lockdown index, May 30-June 5

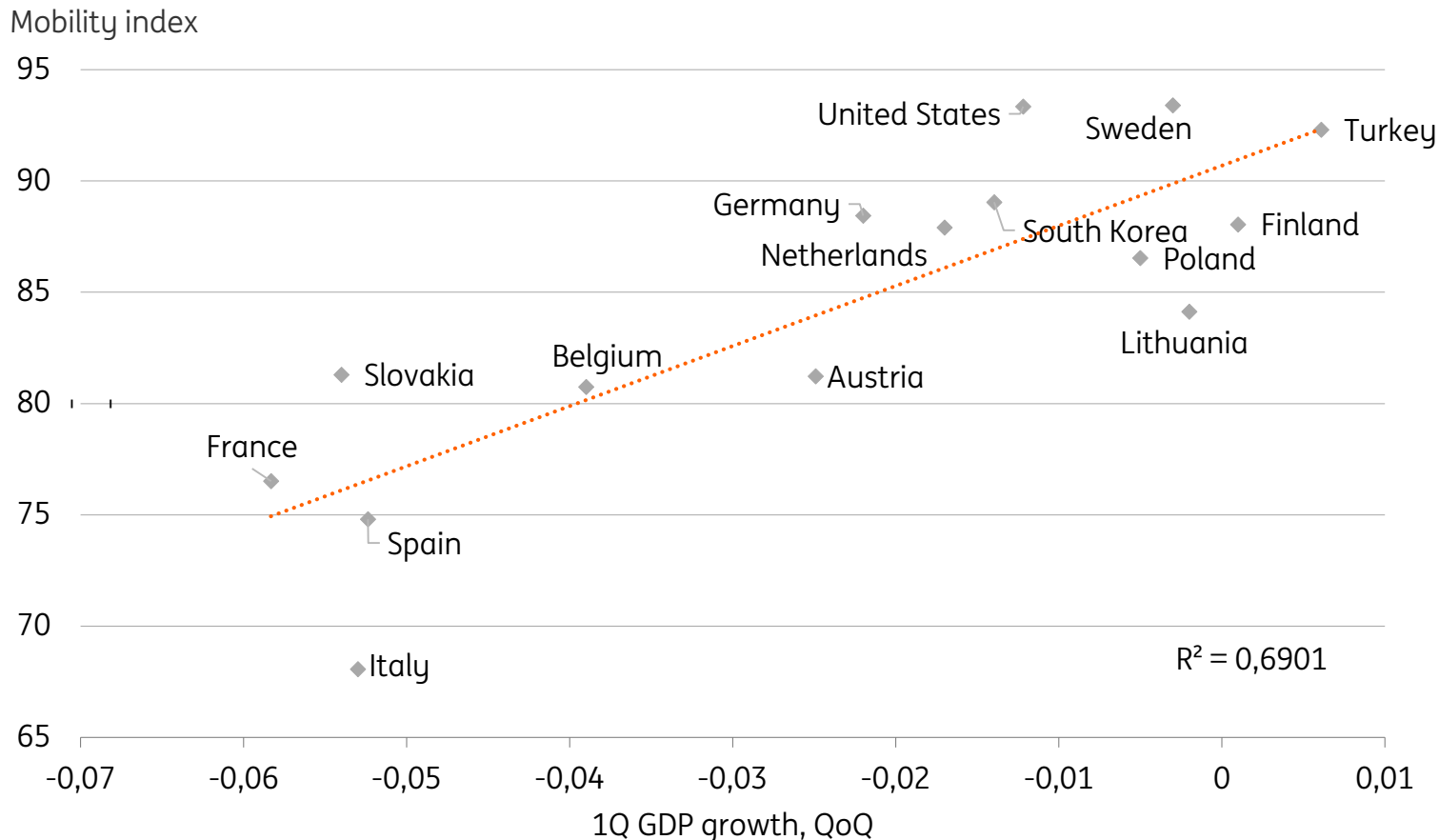


Activity is gradually increasing as lockdowns are eased



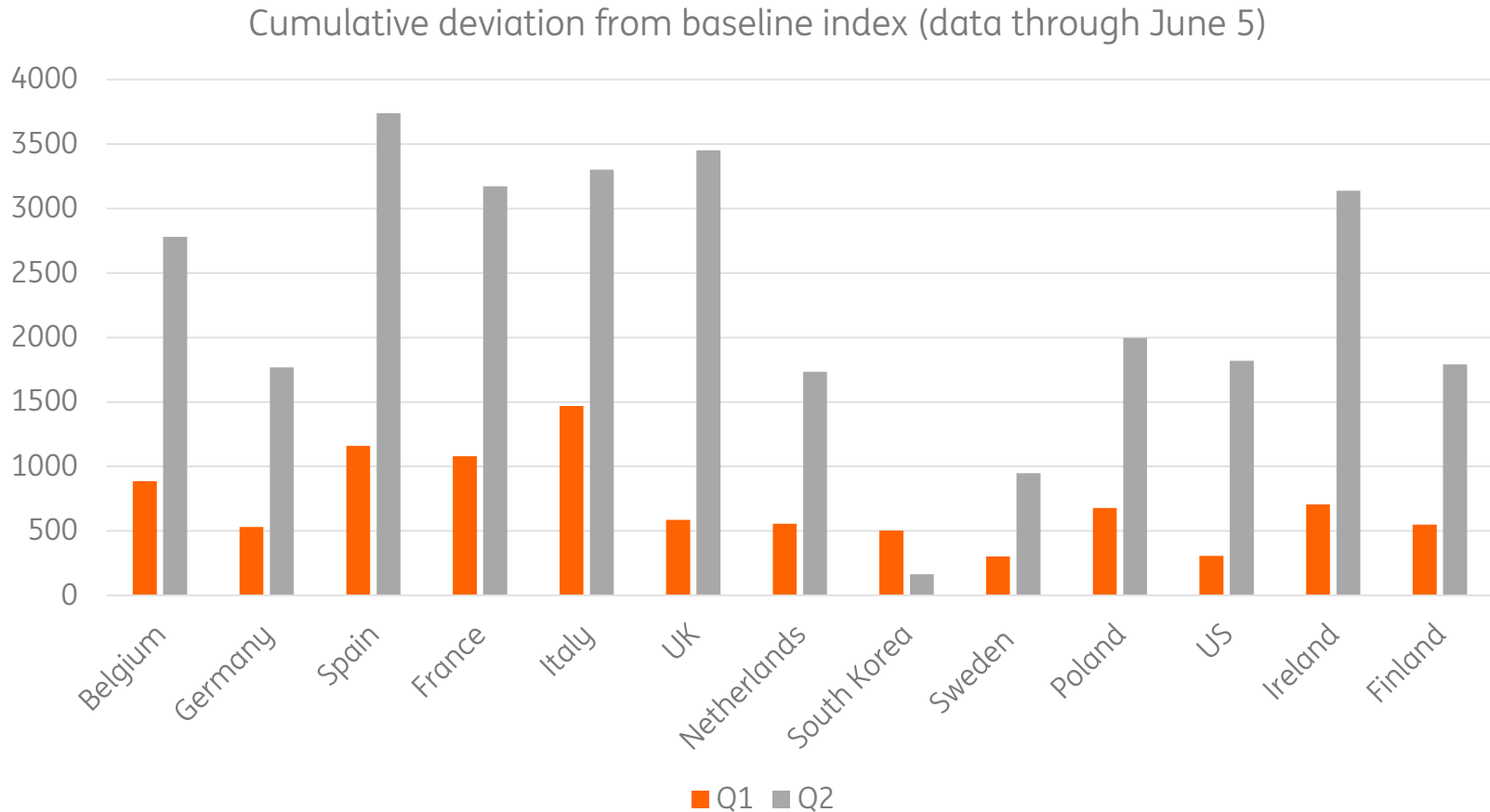
Note: index of average activity since Feb 15 for retail & recreation, groceries & pharmacies and workplaces using Google COVID-19 Community Mobility Reports dated May 4. 100=baseline of activity between Jan 3 and Feb 9
Source: ING Research, Google COVID-19 Community Mobility Reports

The first quarter decline is dominated by domestic lockdowns...

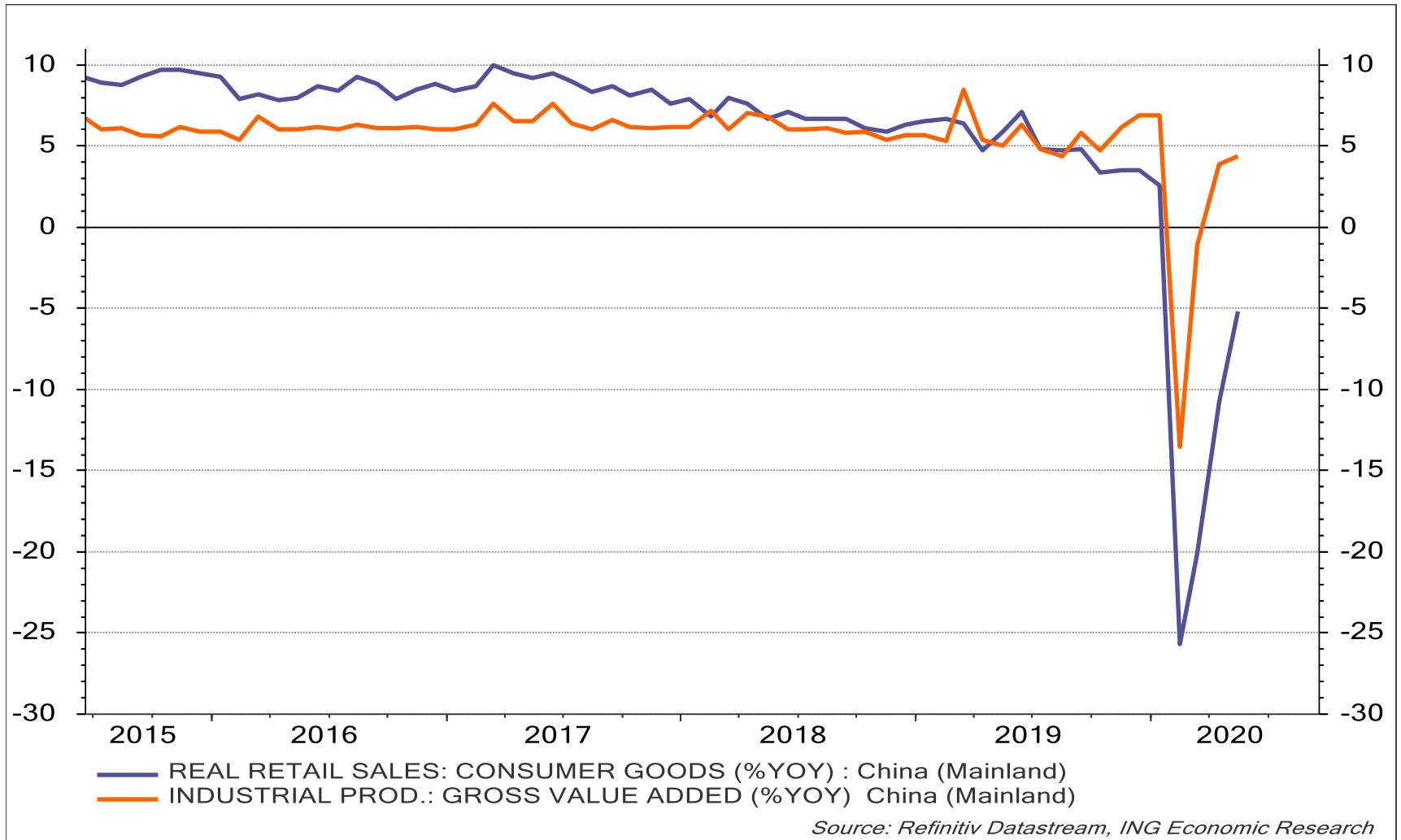


Note: index of average activity since Feb 15 for *retail & recreation, groceries & pharmacies and workplaces* using Google COVID-19 Community Mobility Reports with data through May 2. 100=baseline of activity between Jan 3 and Feb 9
Source: ING Research, Google COVID-19 Community Mobility Reports

...and second quarter will be worse

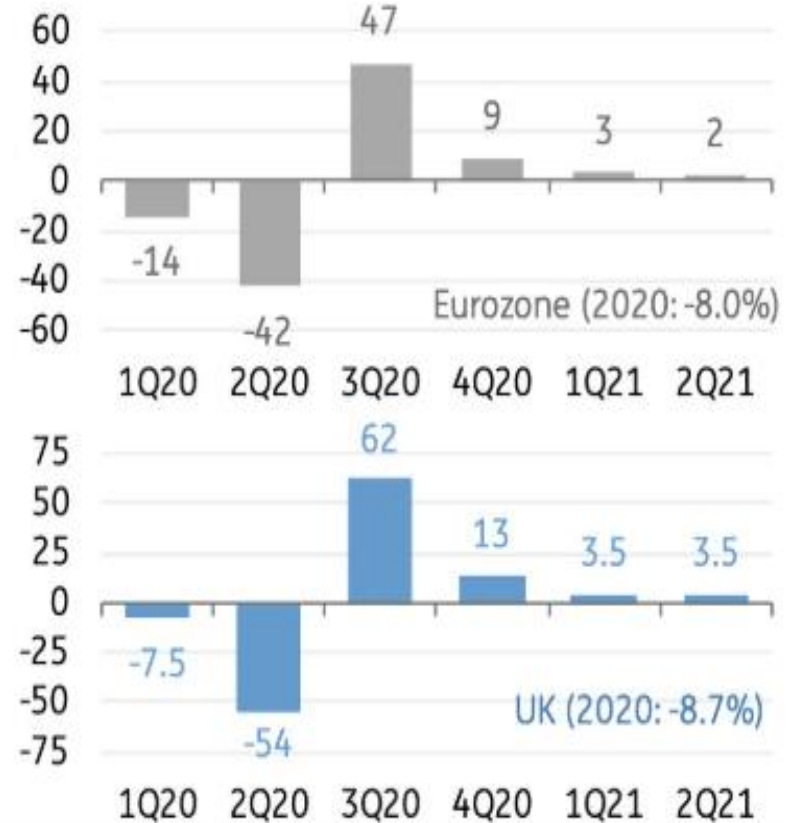


China sees (only) gradual normalisation



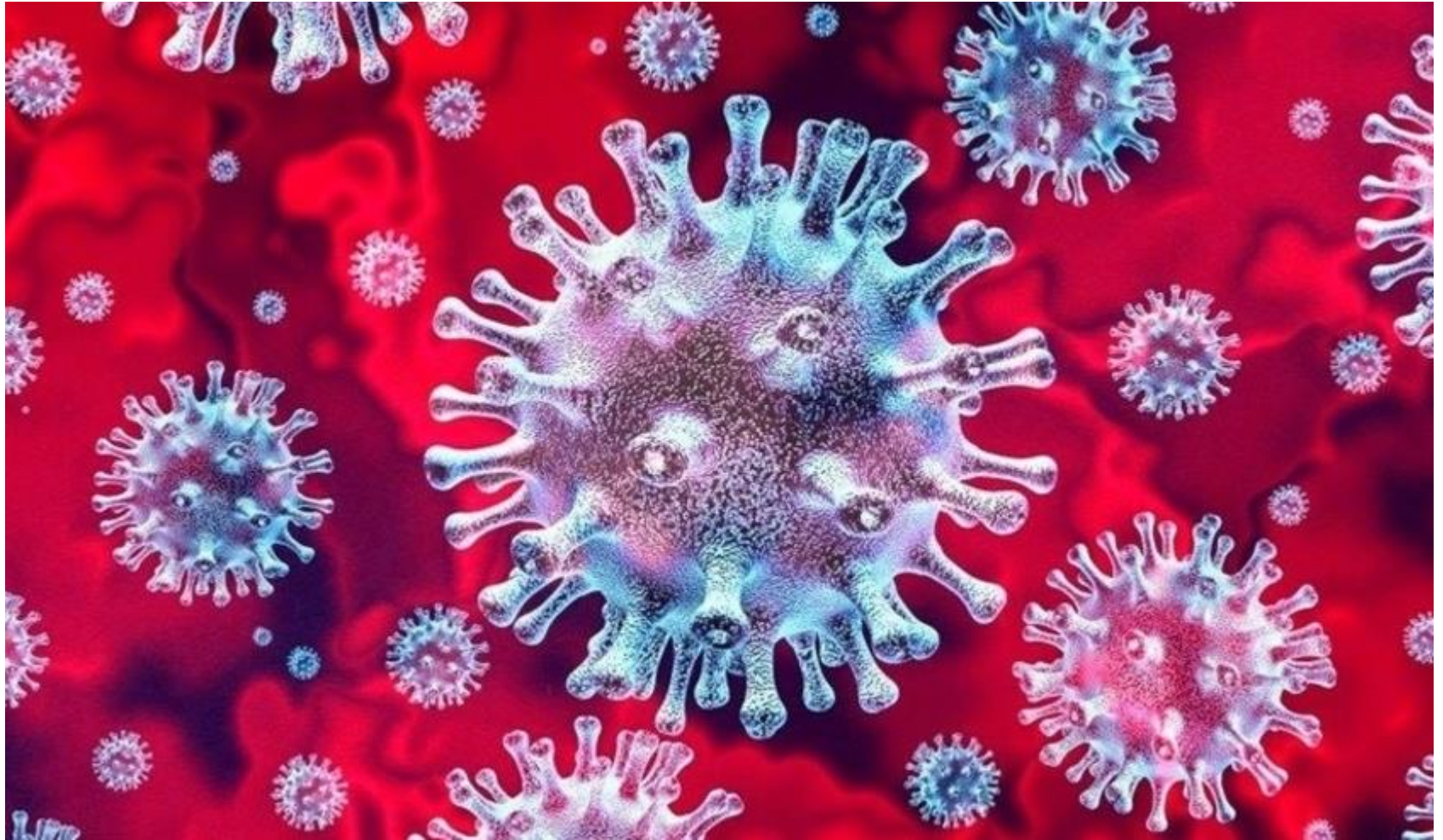
Strong third quarter expected

Real GDP growth (QoQ% annualized, YoY% for China)

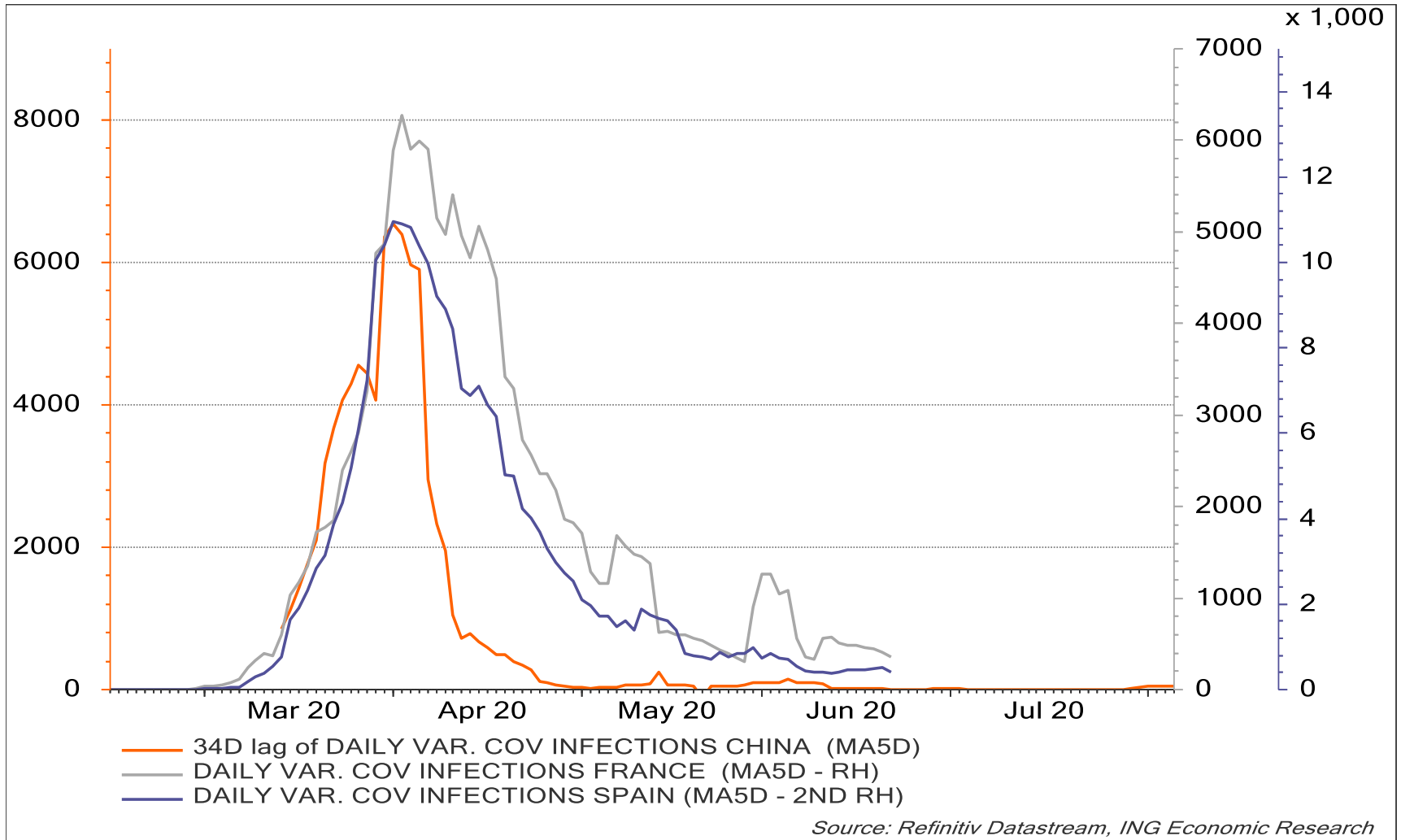


The risk of a return of Covid-19 later this year

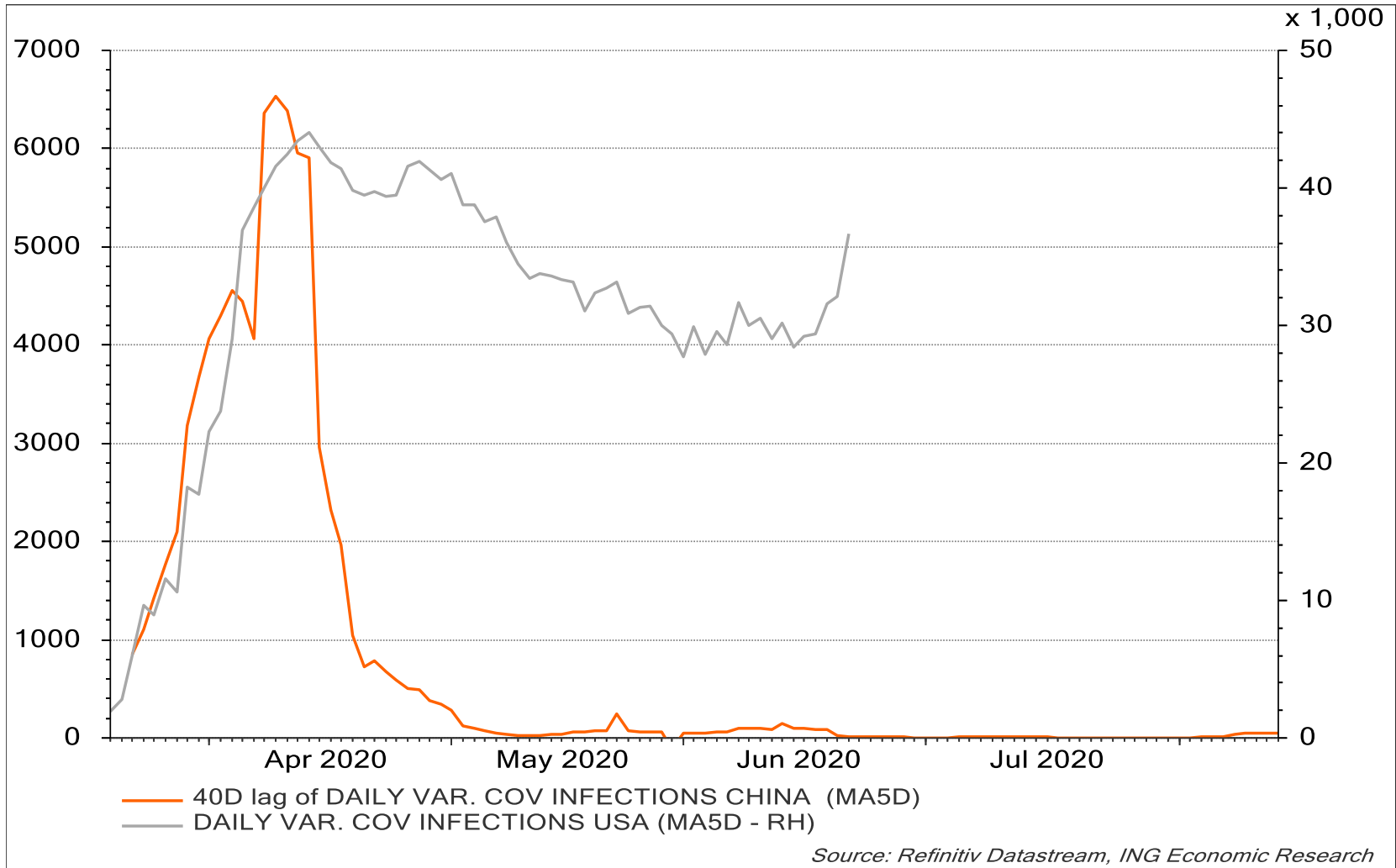
(reality is that virus will not disappear without vaccine)



The number of new infections in Europe is still following the Chinese pattern ...



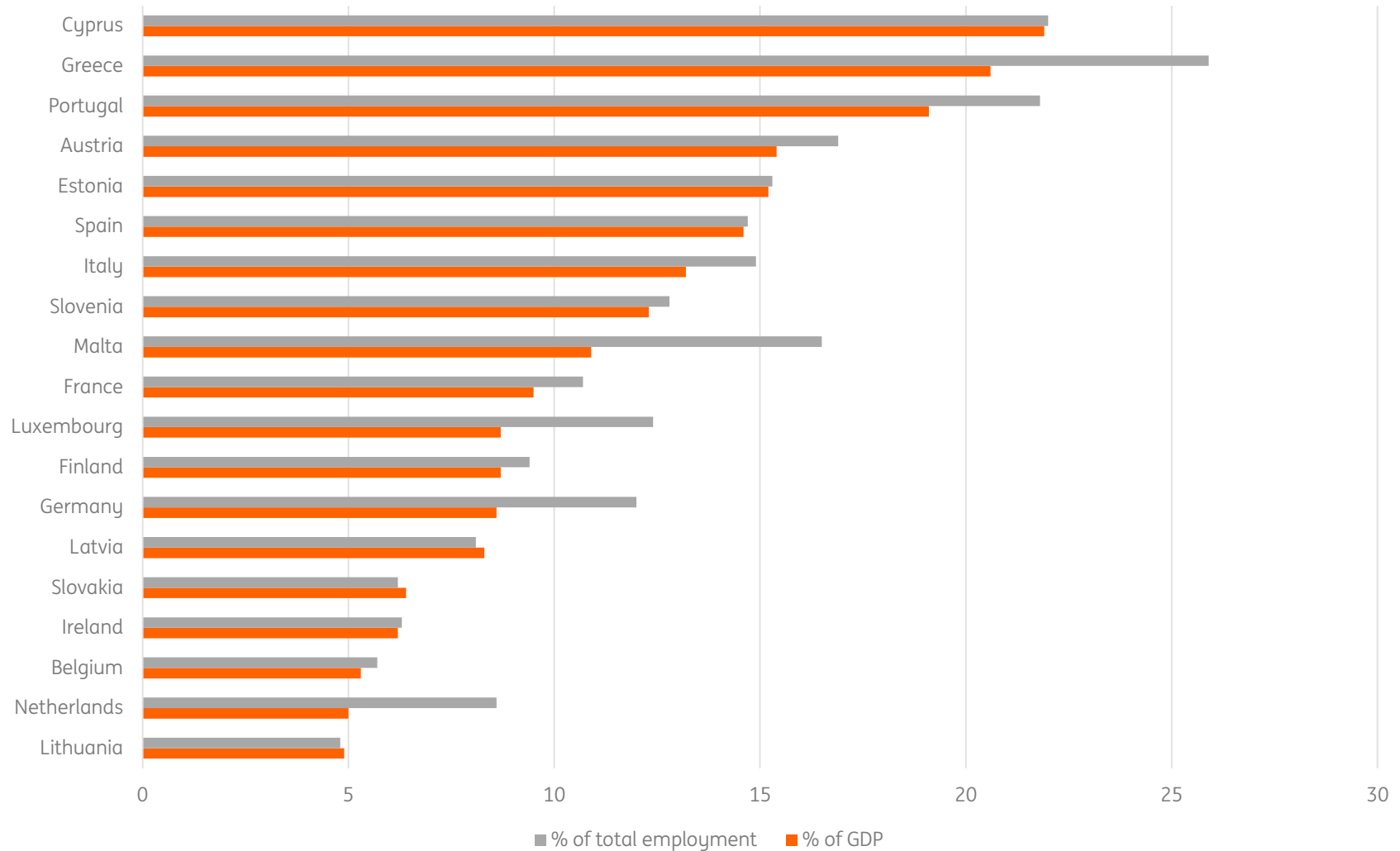
...and in the US???



Renewed centrifugal forces in the Eurozone



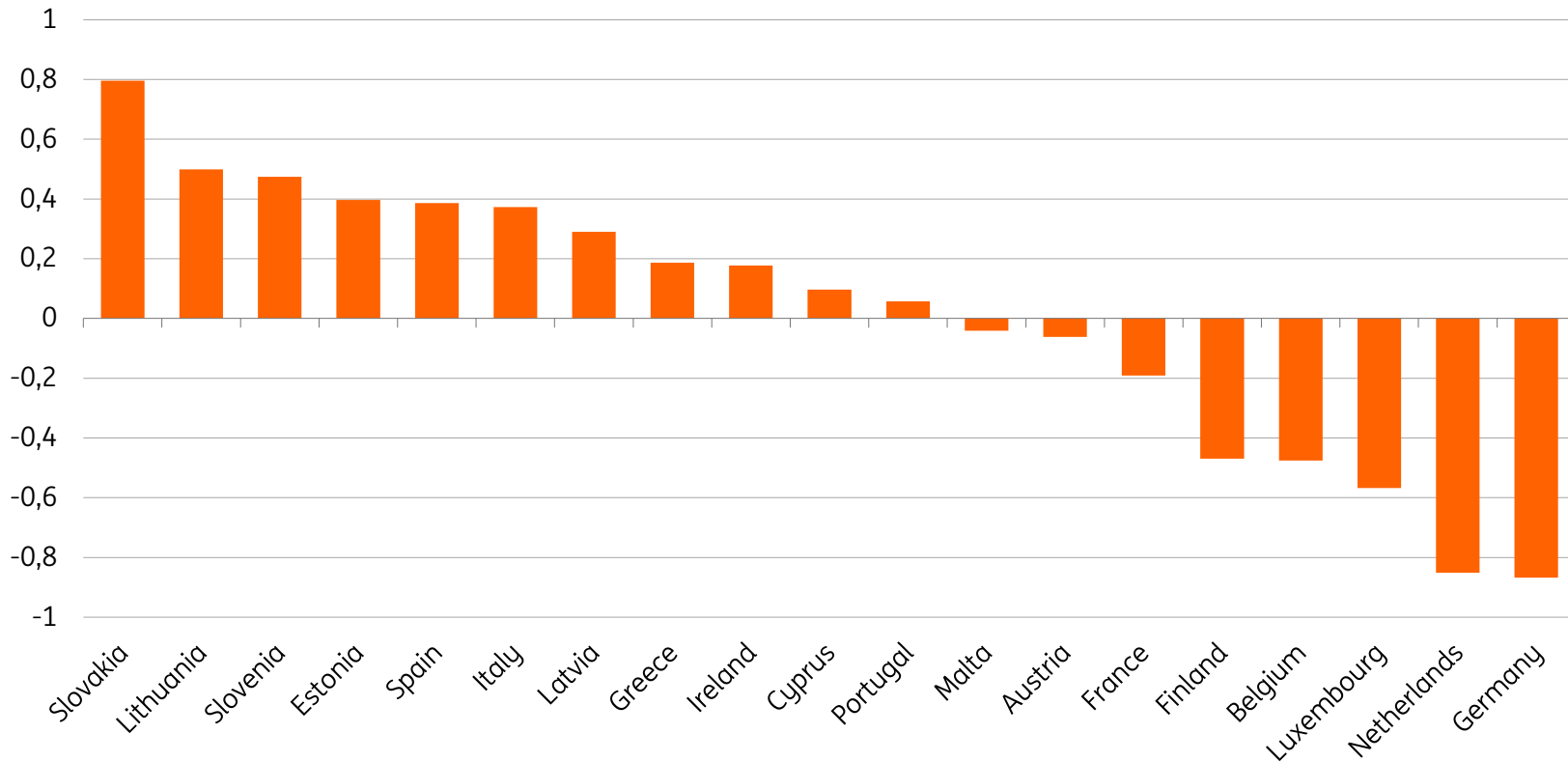
Tourism will be hit hard



Source: World travel and tourism council

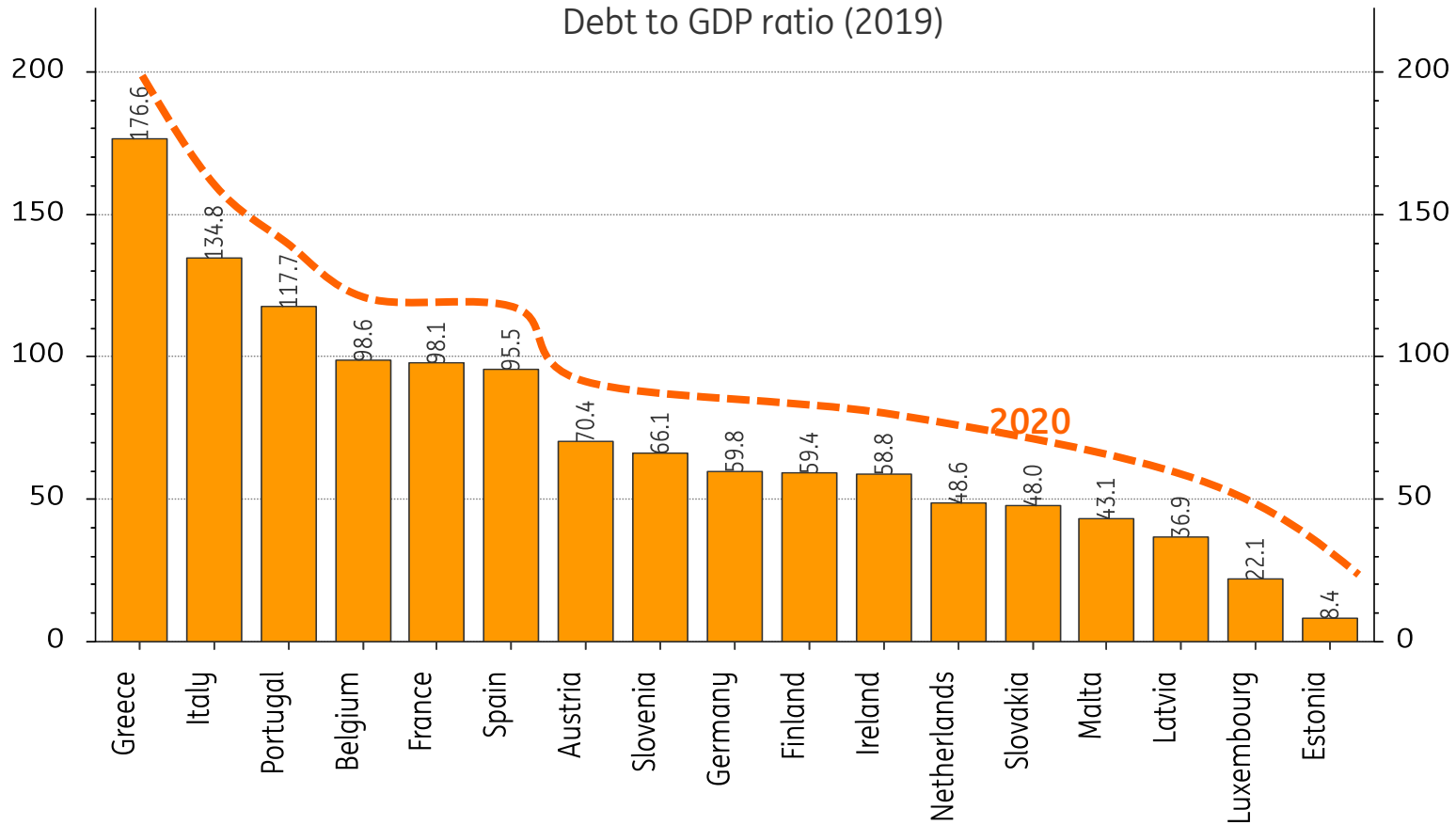
European periphery is more vulnerable

Vulnerability index



- Depth and length of the lockdown
- Fiscal response including automatic stabilisers
- Sectoral and company size sensitivity to the corona crisis
- Financial position of the corporate sector
- Financial position of households
- Global value chain vulnerability

Public finances deteriorate



Source: Refinitiv Datastream, ING Economic Research

European fiscal impulse to the rescue?



#NextGenerationEU: small, but (if approved) important symbolic value

Brexit: no extension, mini trade agreement likely

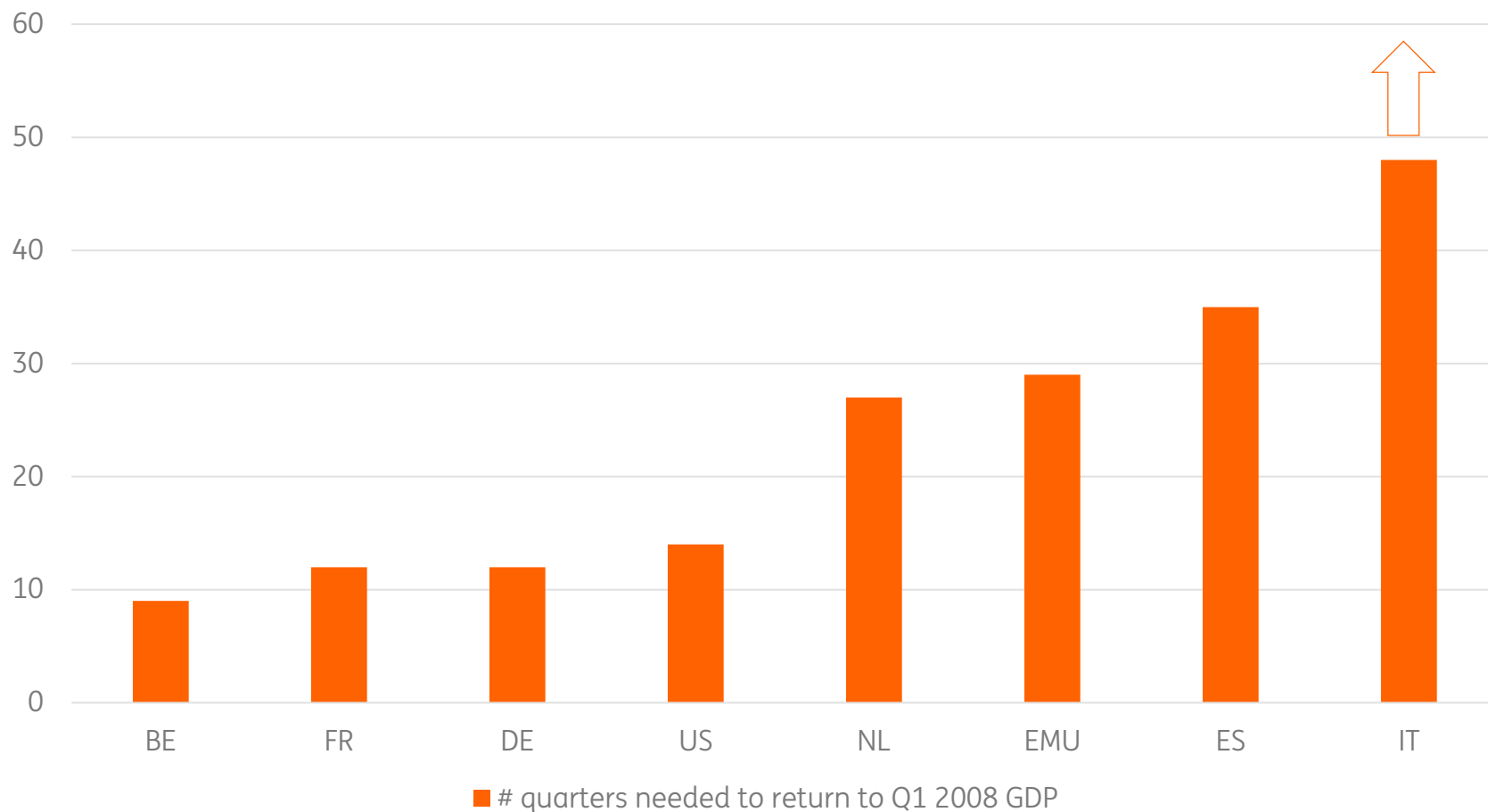


Secular stagnation revisited



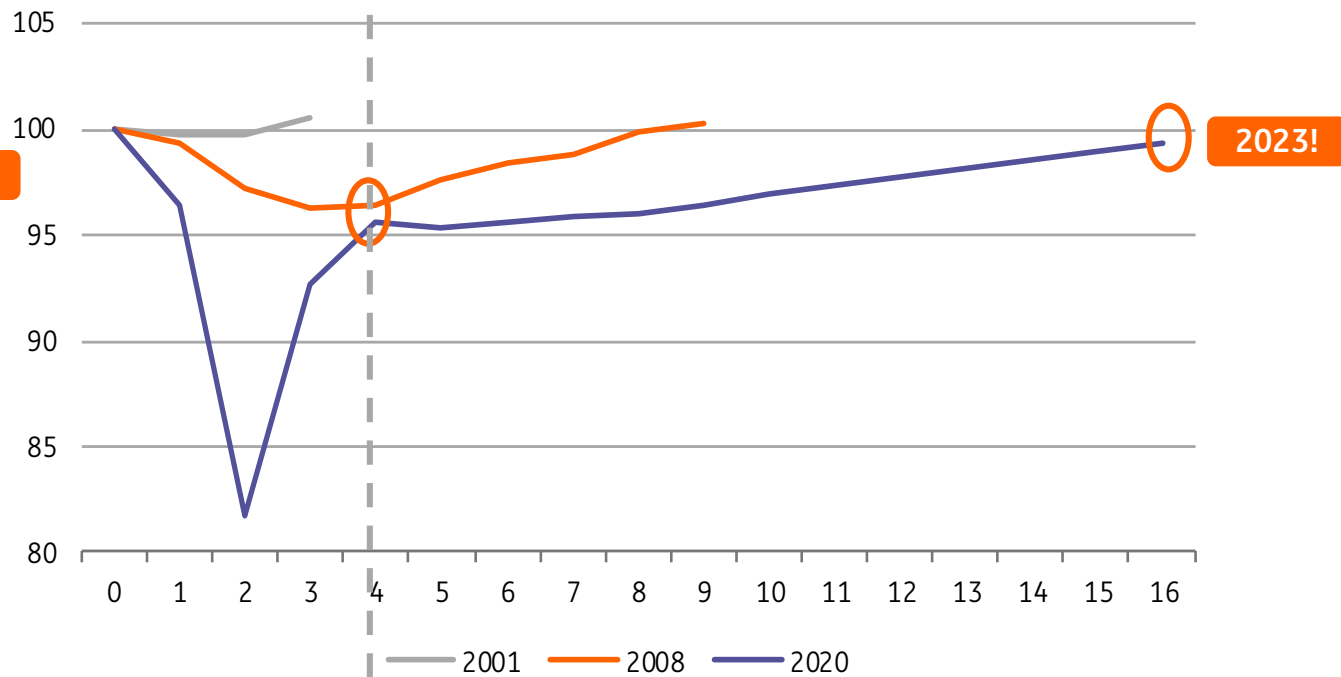
It took some time for economies to return to their pre-crisis level after the financial crisis

quarters needed to return to Q1 2008 GDP



The V-shaped illusion

Belgian GDP during recessions
(100 = Peak of economic cycle)



Covid-19 crisis

2023!

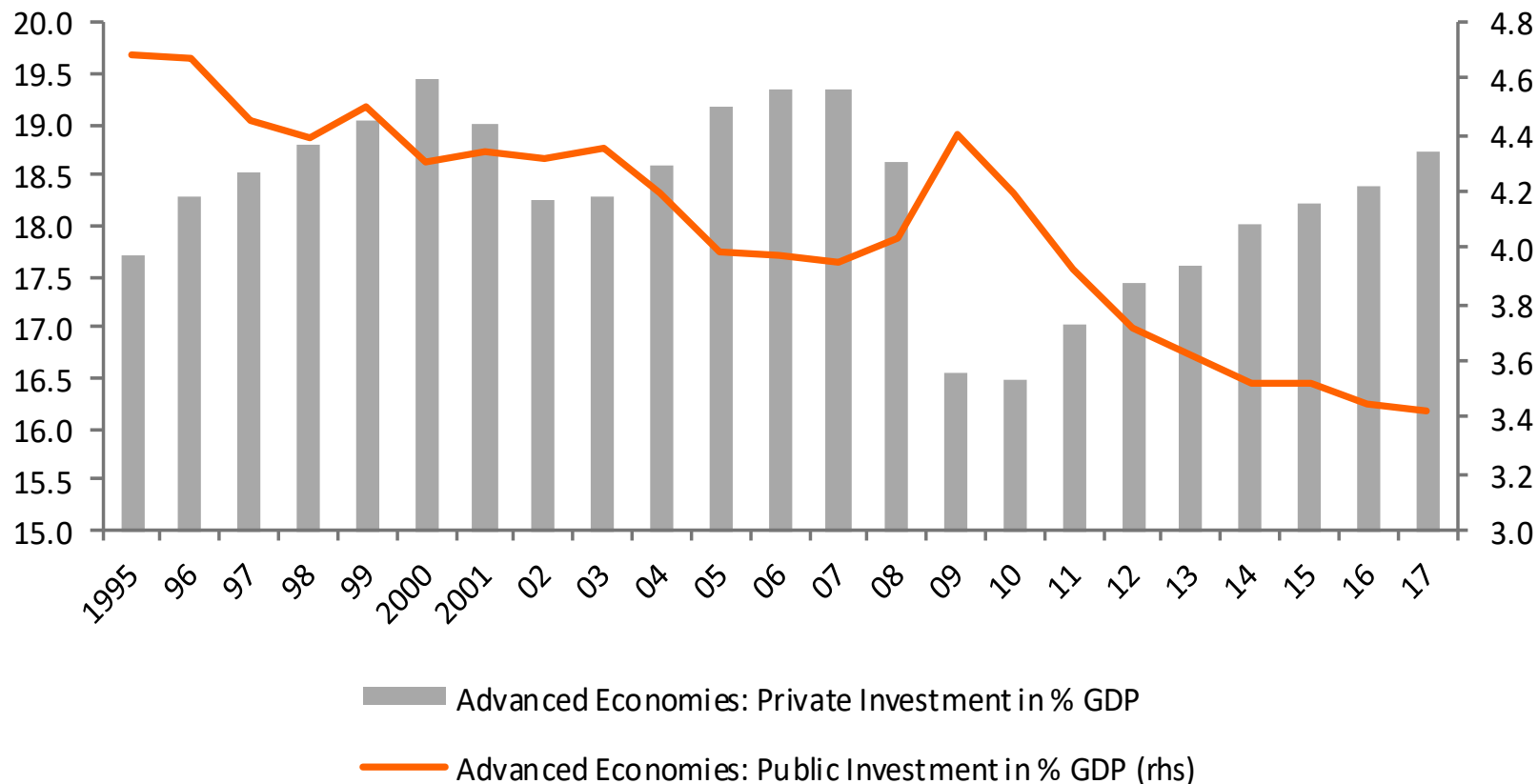
Phase I: illusion of a "V"

Phase II: slow recovery

Why the recovery will be long and drawn-out

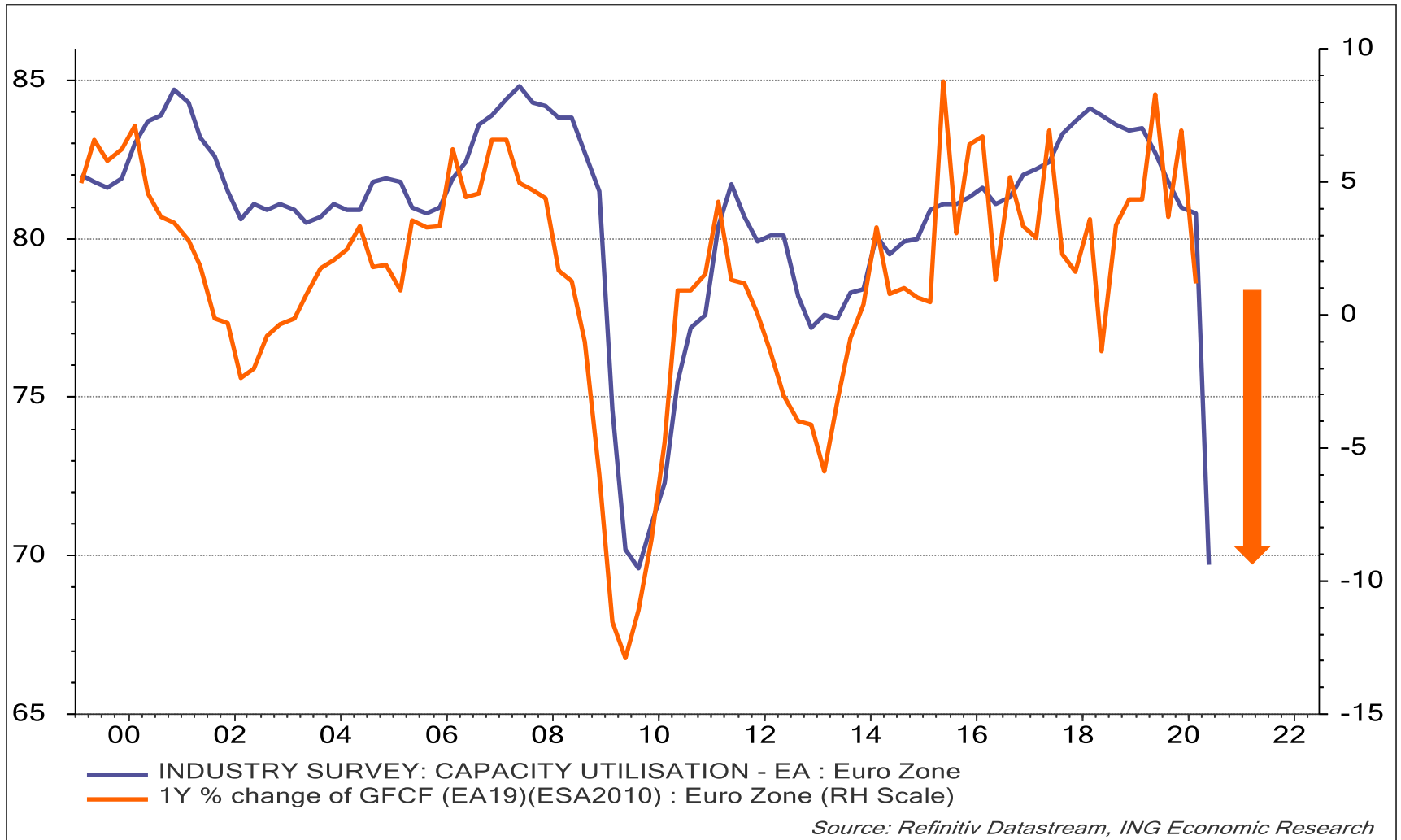
- Second round effects (e.g. more savings on the back of higher unemployment, bankruptcies)
- Some of the measures to contain spreading of diseases (like social distancing will remain in place for quite some time). Wildcard: early vaccine
- International trade is becoming less of a growth driver
 - deglobalisation trend is still present (new US president unlikely to reverse this, e.g. in the Netherlands opposition against CETA and against Mercosur trade agreement)
 - more international conflicts (e.g. regarding digital tax)
- Adverse demographics
- Debt overhang
- Lower investments hampering productivity growth

Lagging private investment, falling public investment

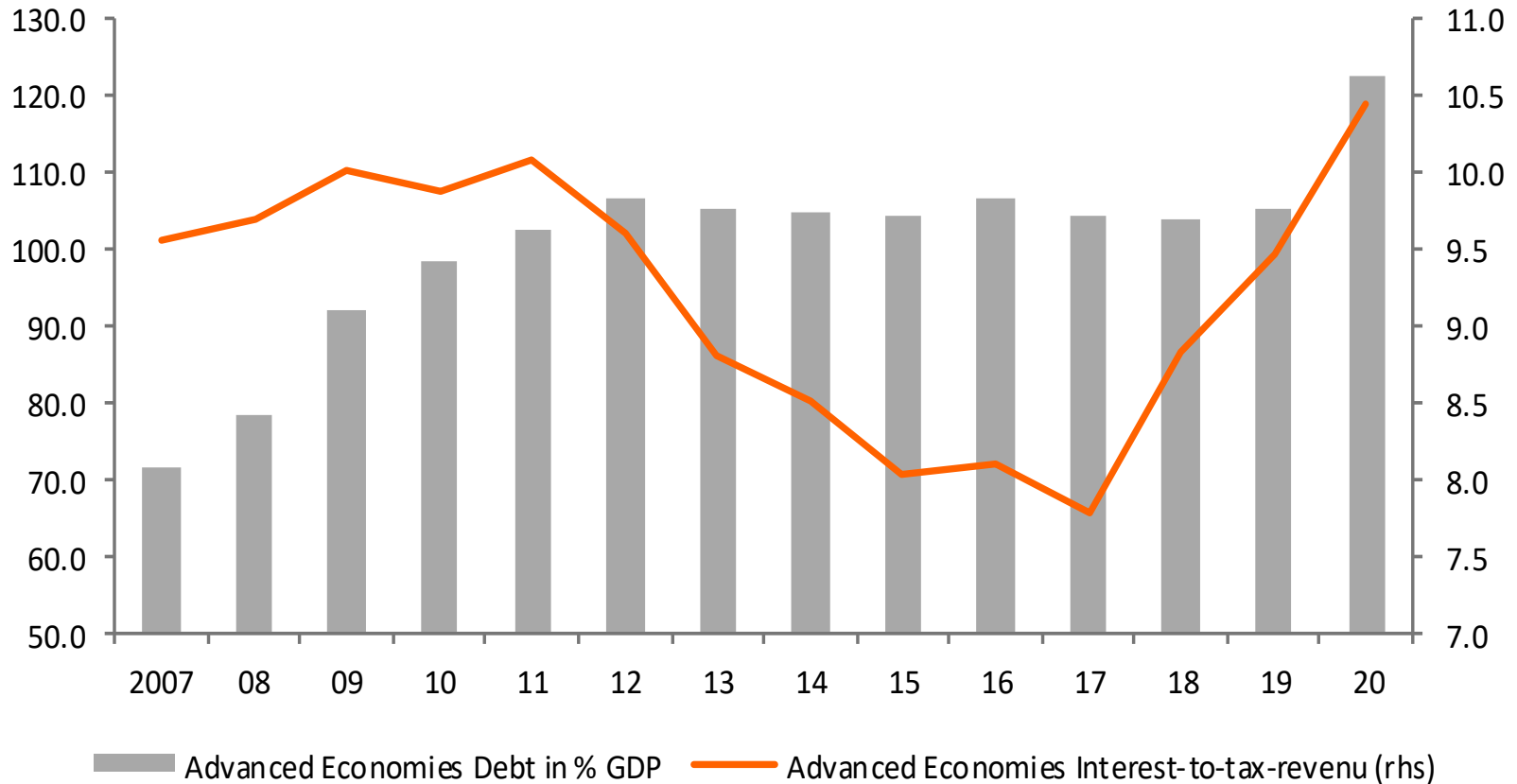


Source: IMF

Business investments likely to crash because of the crisis



Public debt strongly increases

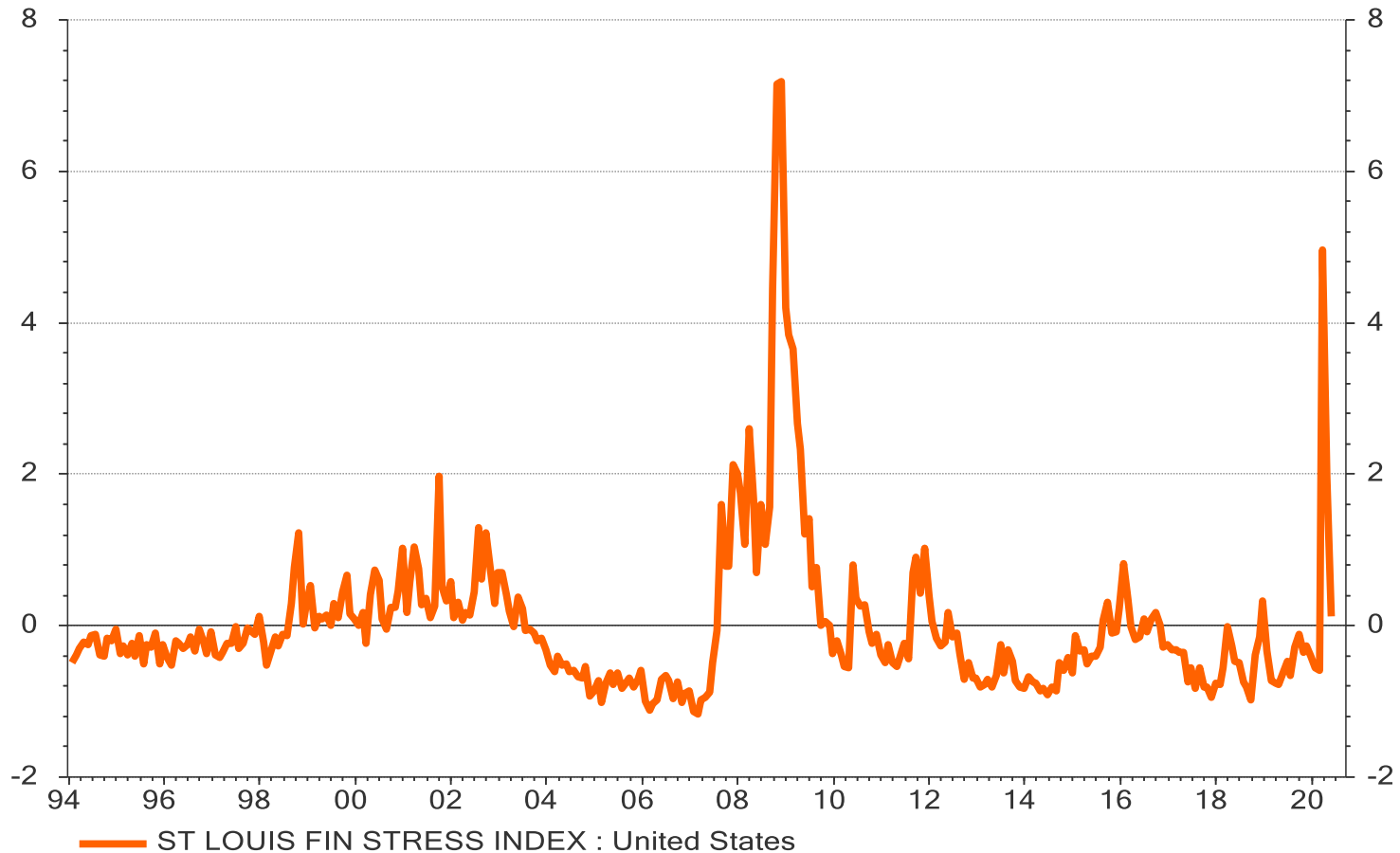


Source: IMF

The printing press to the rescue?



Fed acted to reduce financial stress



Source: Refinitiv Datastream, ING Economic Research

Fed eyes labour market, not stock market

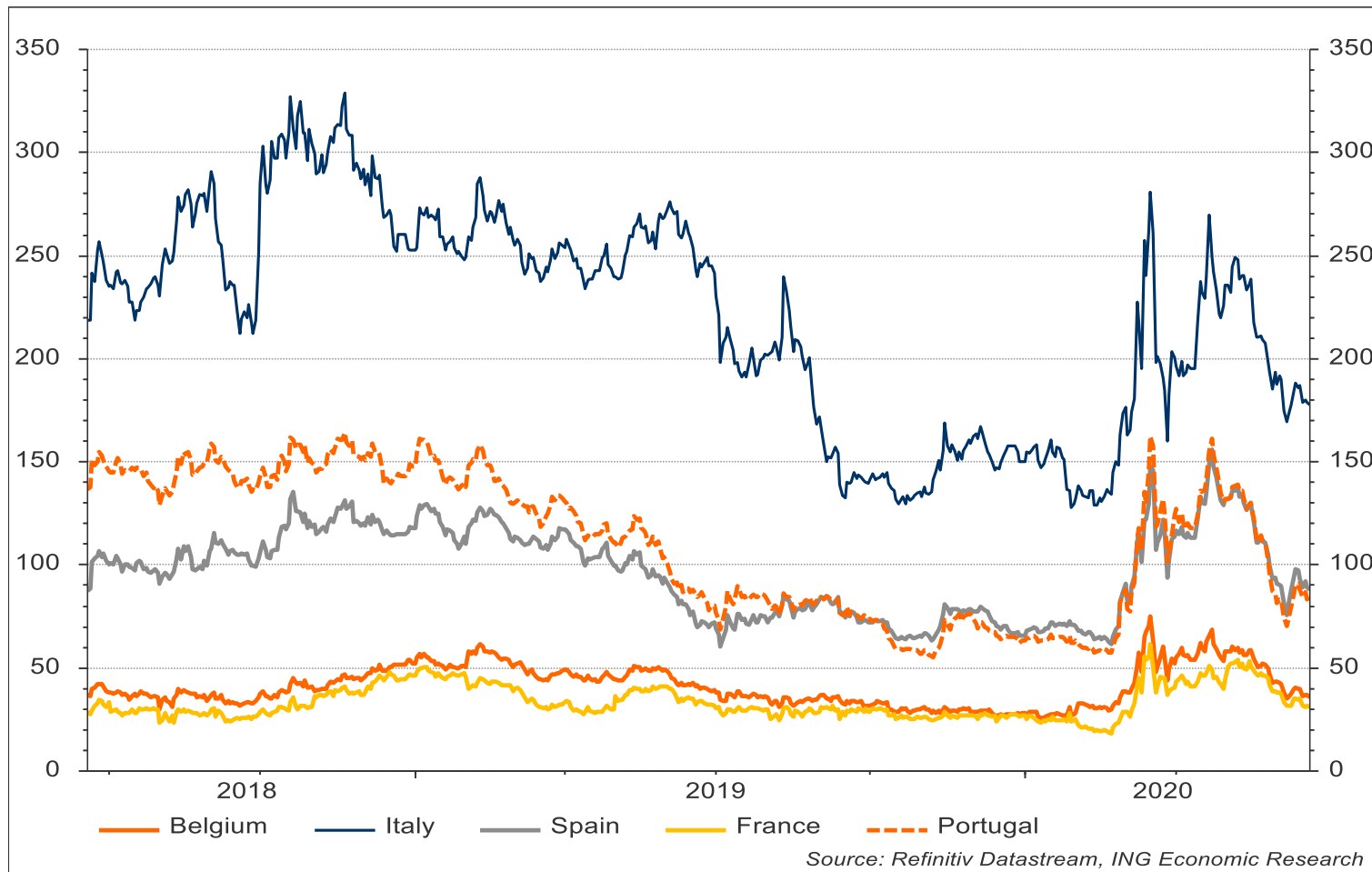


So, really, it's about getting the labour market back and getting it in shape, that's our major focus.

If we would hold back because we think asset prices are too high, others may not think so, but we just decided that that's the case, what would happen to those people? You know, what would happen to the people that we're actually, legally supposed to be serving?

We're supposed to be pursuing maximum employment and stable prices, and that's what we're pursuing.

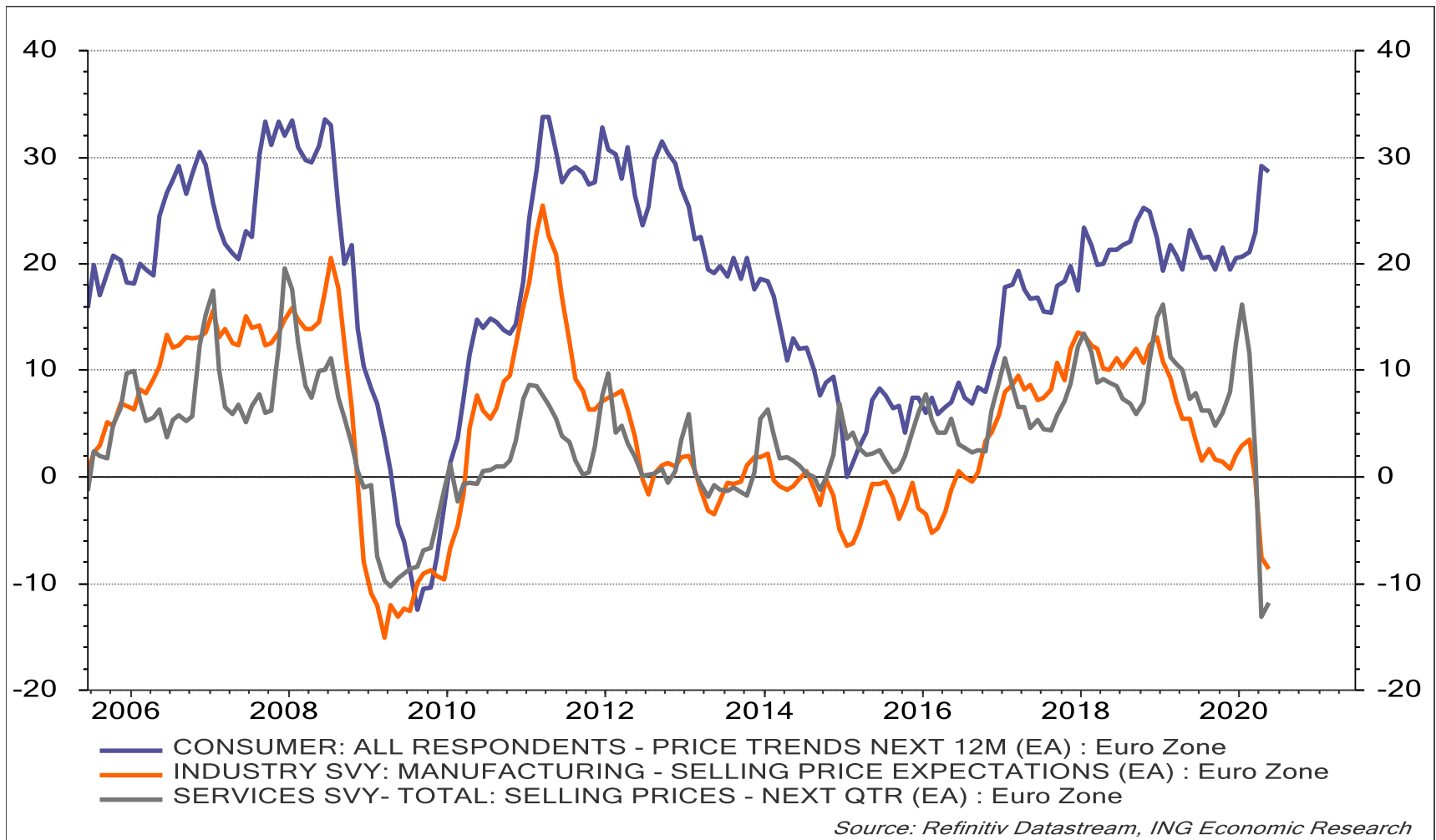
Bond yield spreads with Germany



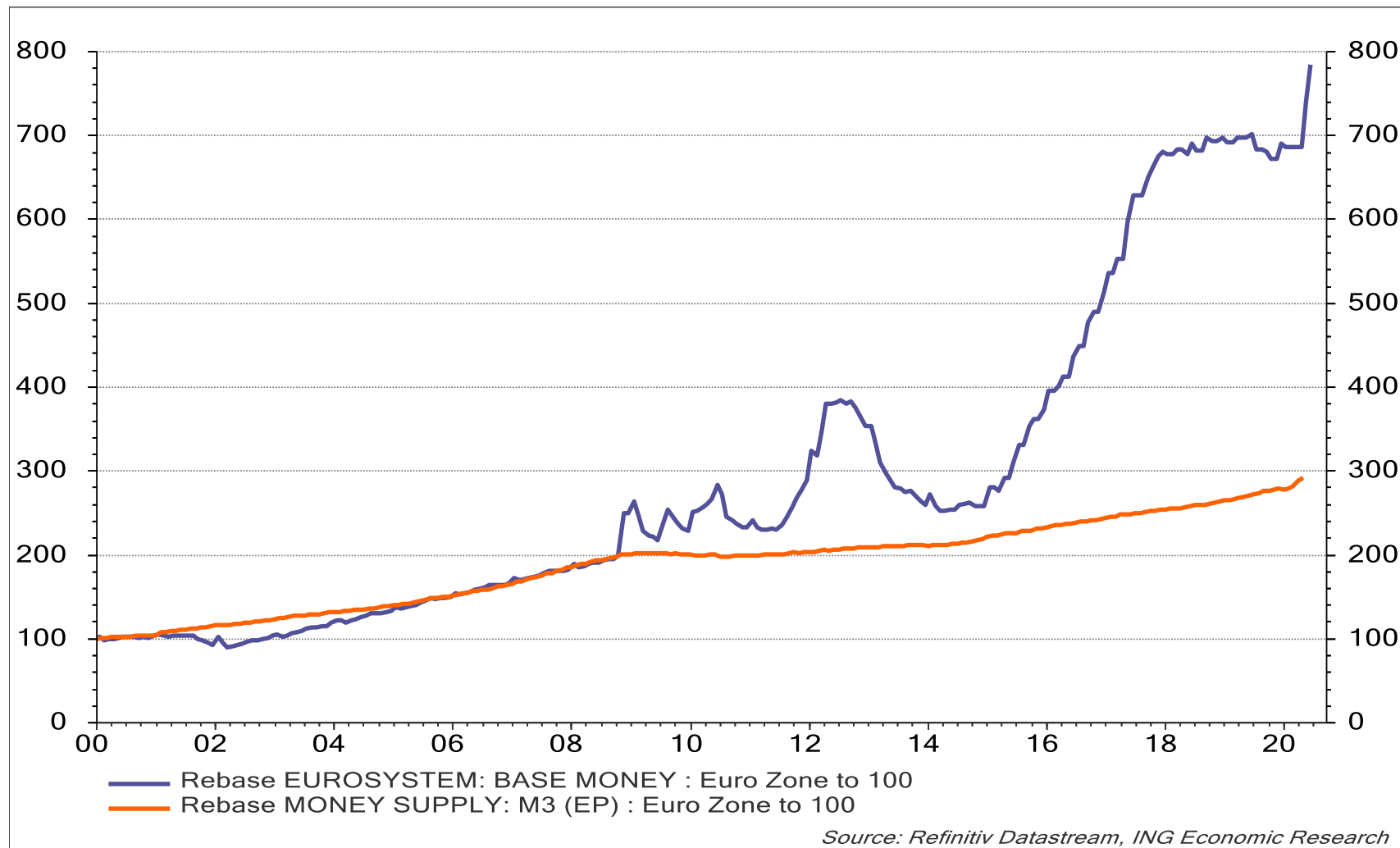
Trouble in Karlsruhe



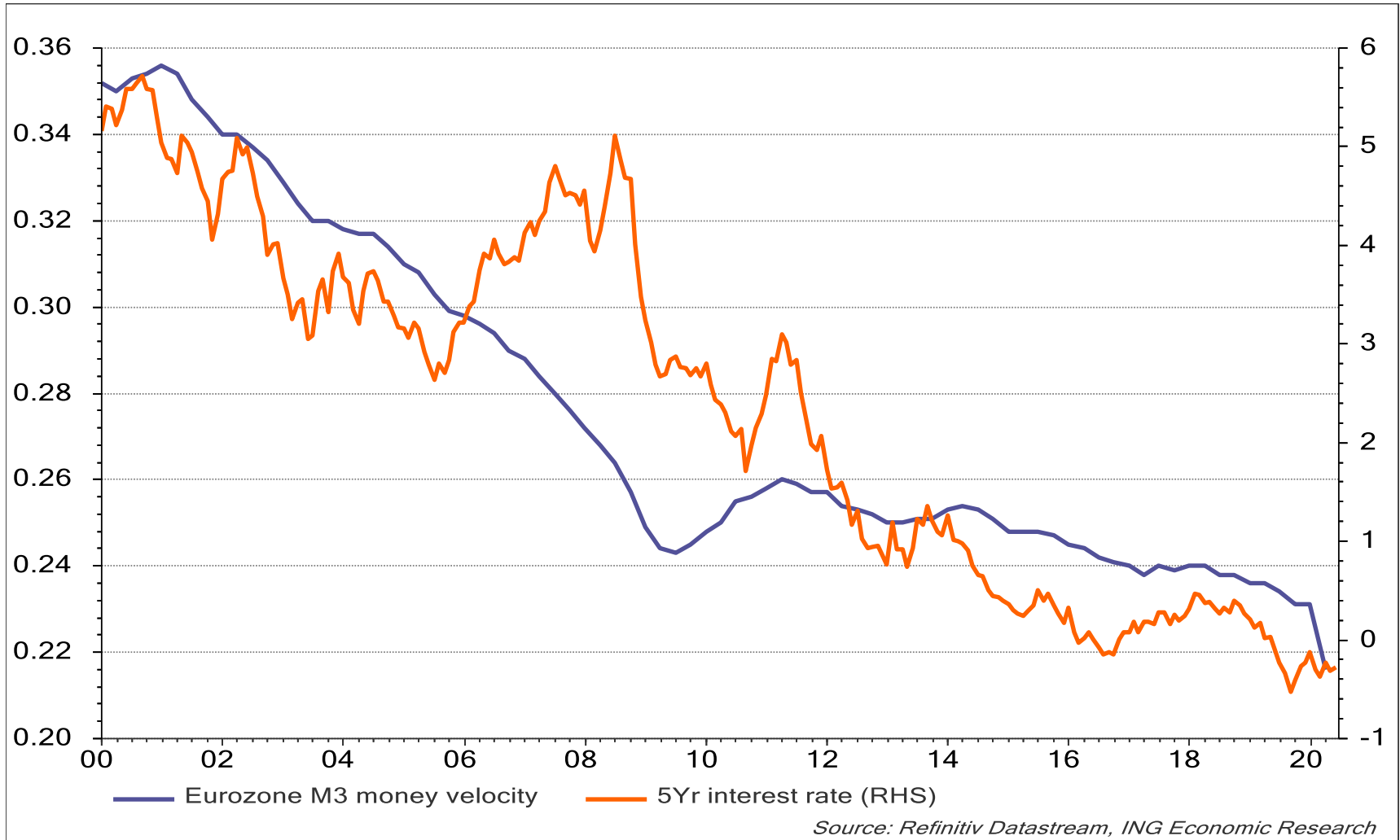
Inflation outlook still muted, despite consumer discomfort



Why balance sheet expansion is not the same as money creation



Money velocity has come down strongly



Some trends speed up

Crisis speeds up L'Oréal's digital makeover

'We achieved in eight weeks what would have taken three years'

Lubomira Rochet



Insurance

Japan gains taste for buying policies online

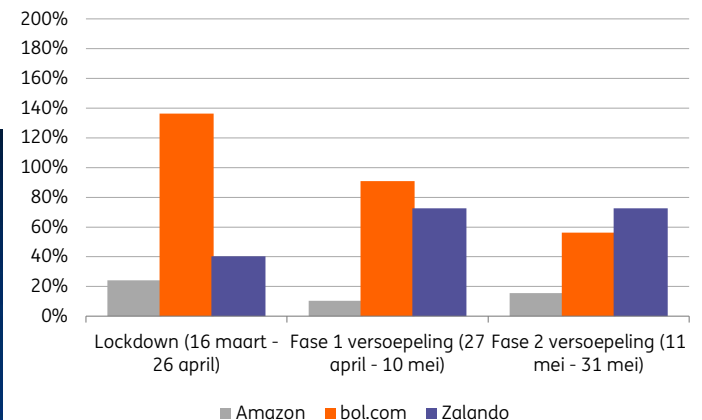
France's Renault highlights obstacles to reshoring industries

BP to slice \$17.5bn off assets value as pandemic dims energy outlook

• Crisis hastens shift from fossil fuels • Biggest move by oil major on uneconomic holdings



YoY-change payments ING customers



2H20 Financial Market Outlook

“Financial Repression 2.0: Fast & Furious”

Steven Vandepitte
Sr. Strategist

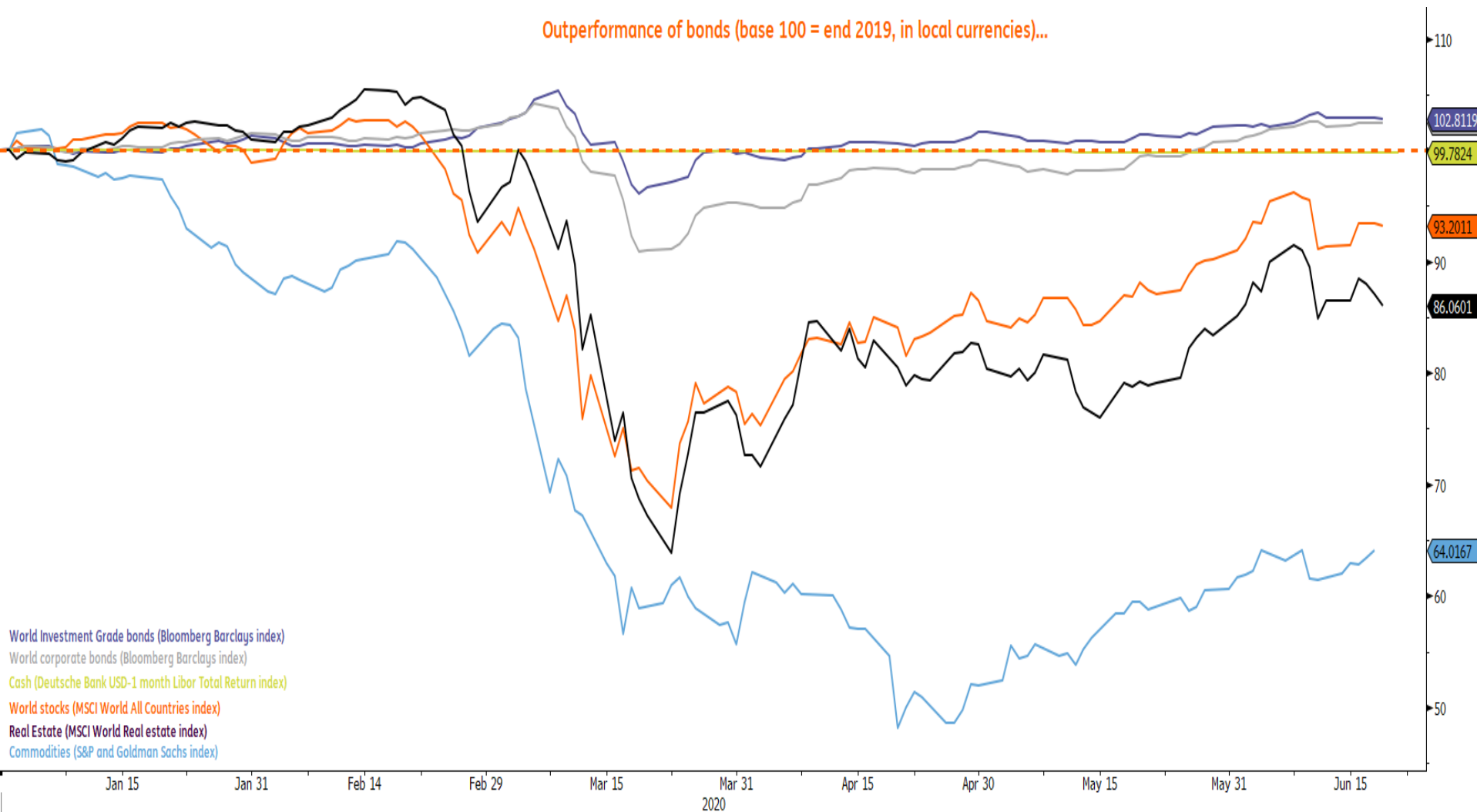


Brussels • June 23, 2020

thinkforward

The scores on the doors

Outperformance of bonds (base 100 = end 2019, in local currencies)...

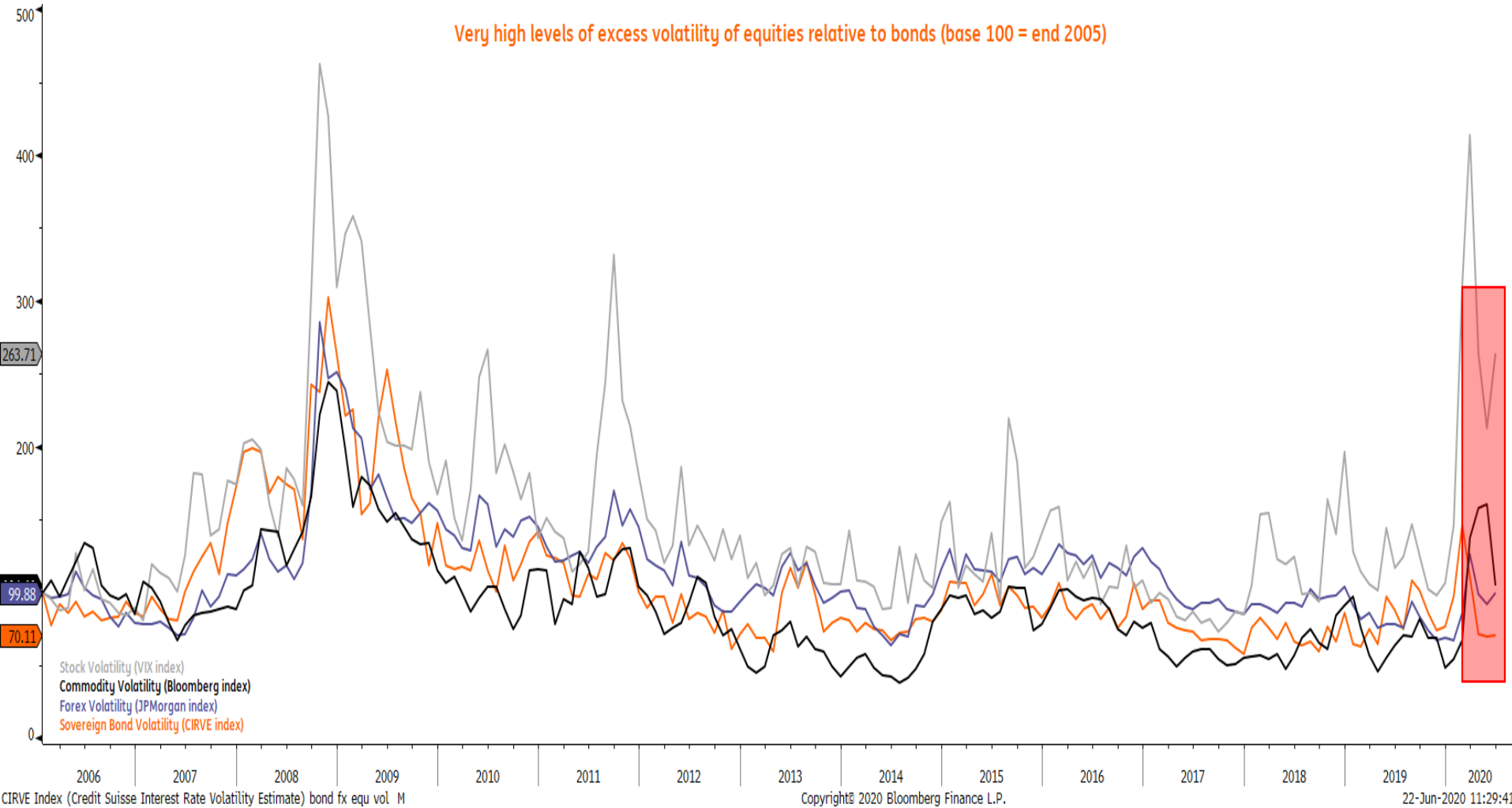


LEGATRUU Index (Bloomberg Barclays Global-Aggregate Total Return Index Value Unh

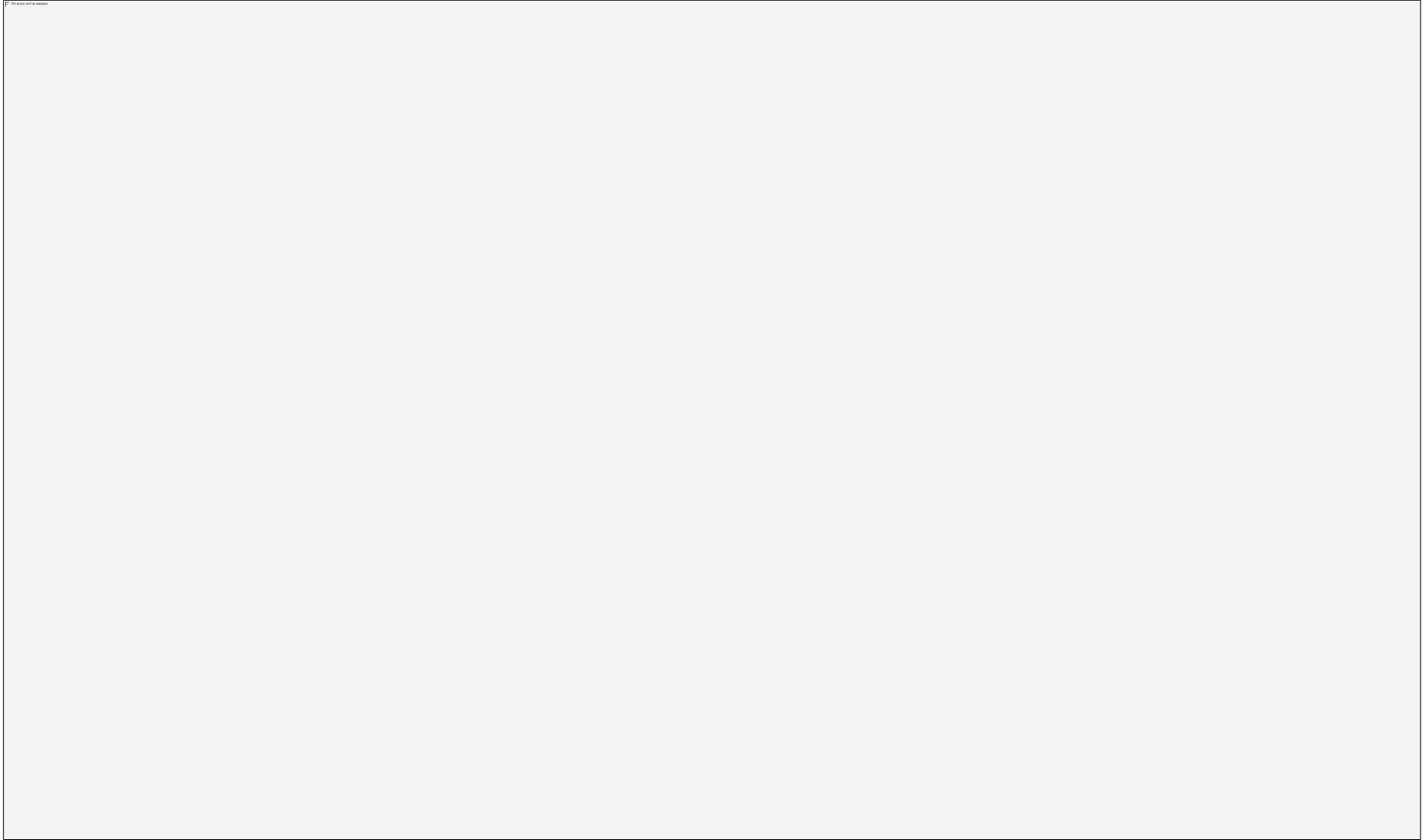
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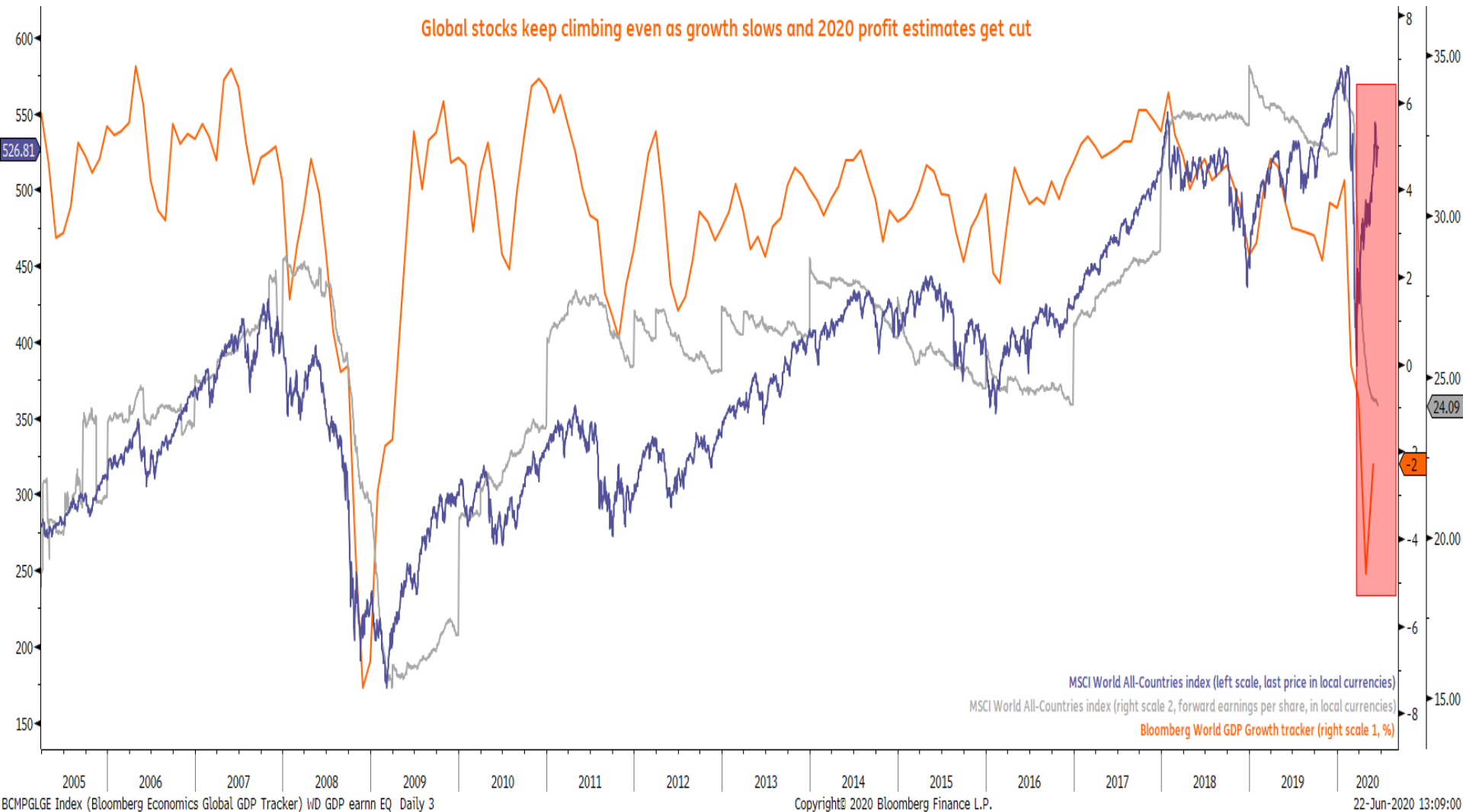
Volatility jumped more than in 2008



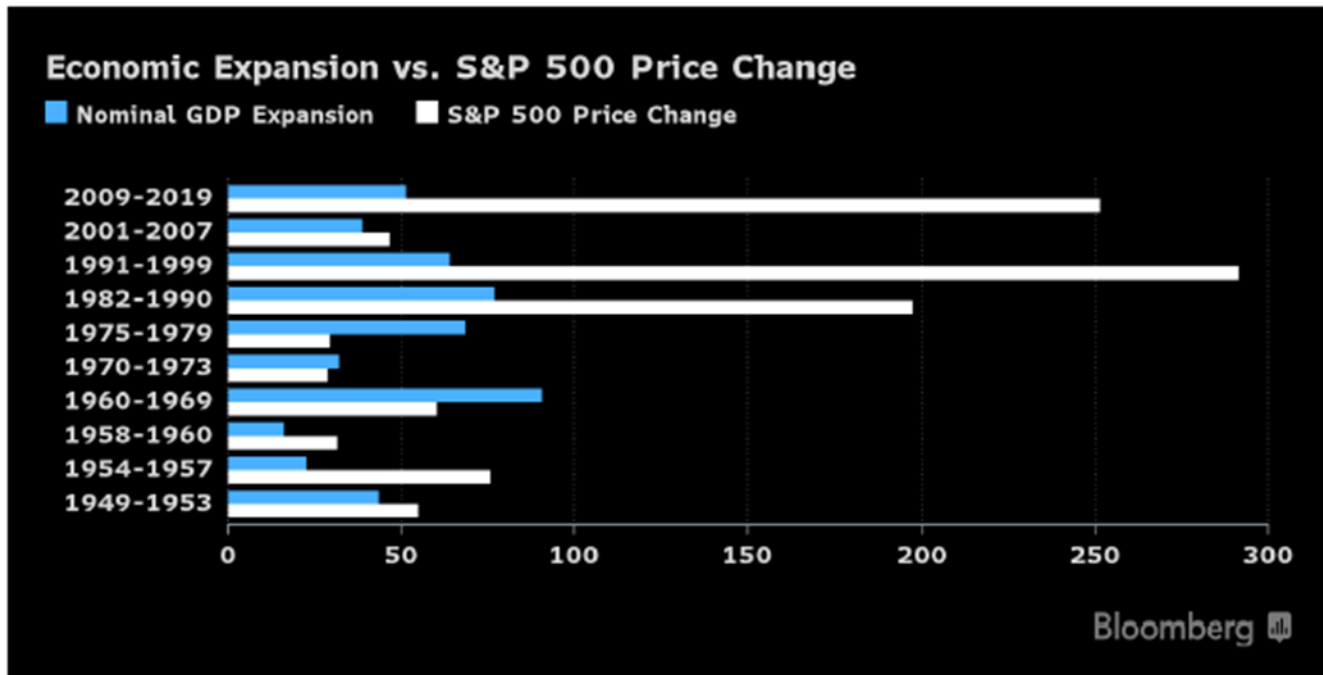
Lazarus like recovery with US & Tech leading



Wall Street over Main Street is nothing new (1)



Wall Street over Main Street is nothing new (2)



Source: Bloomberg Intelligence

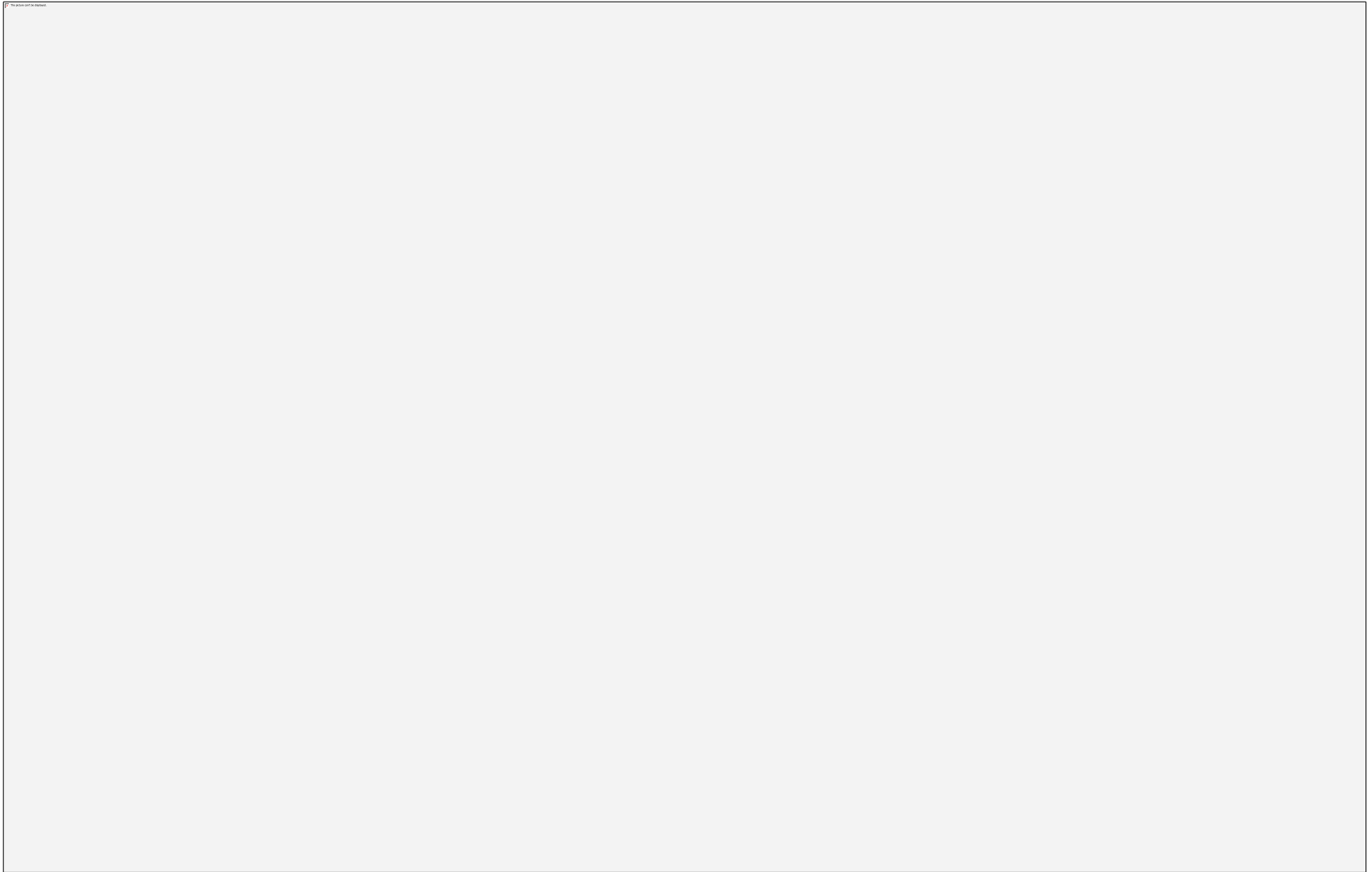
“FEDmidable”



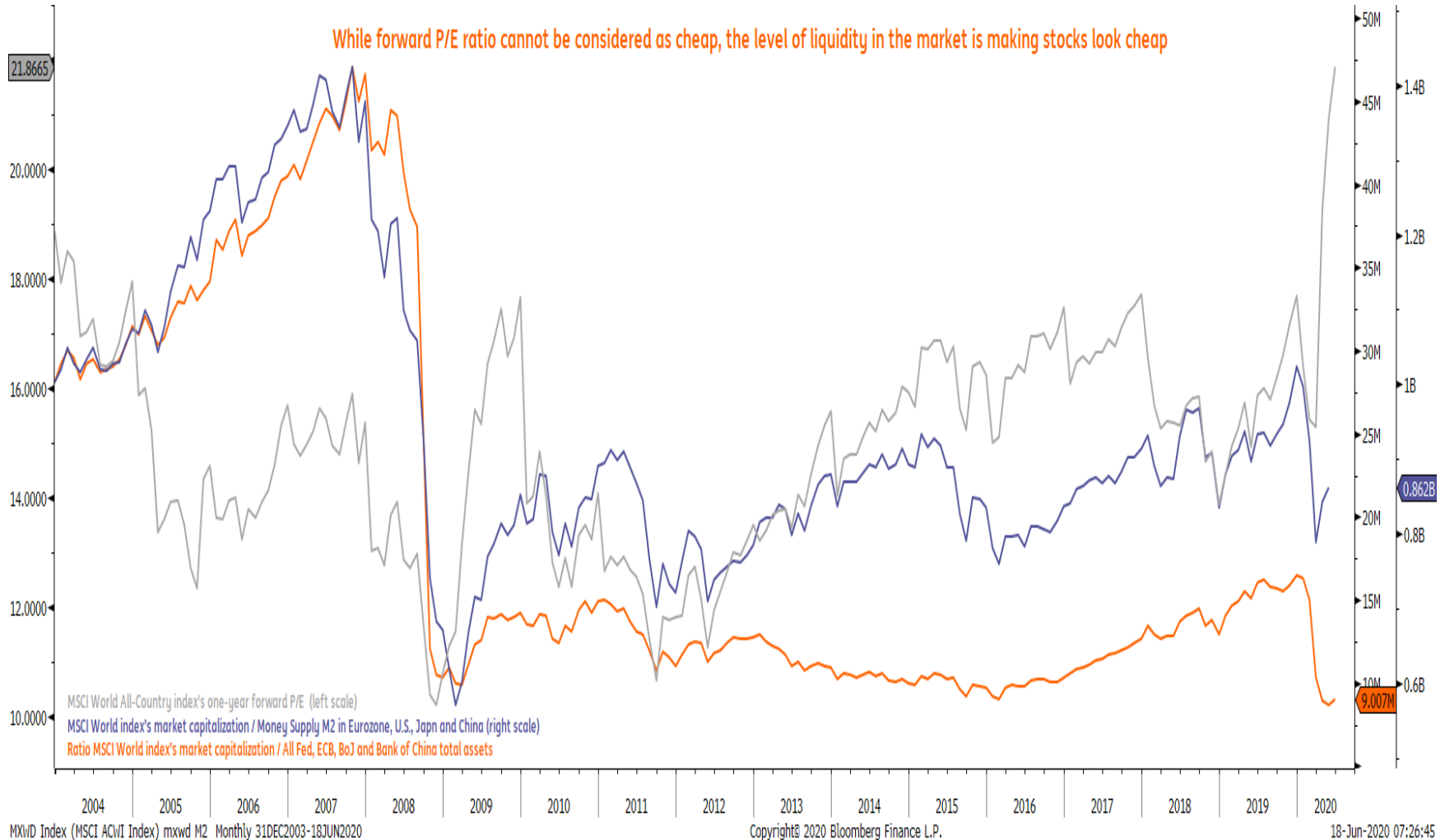
QE Infinity: more than a bazooka applied and not exactly out of ammo



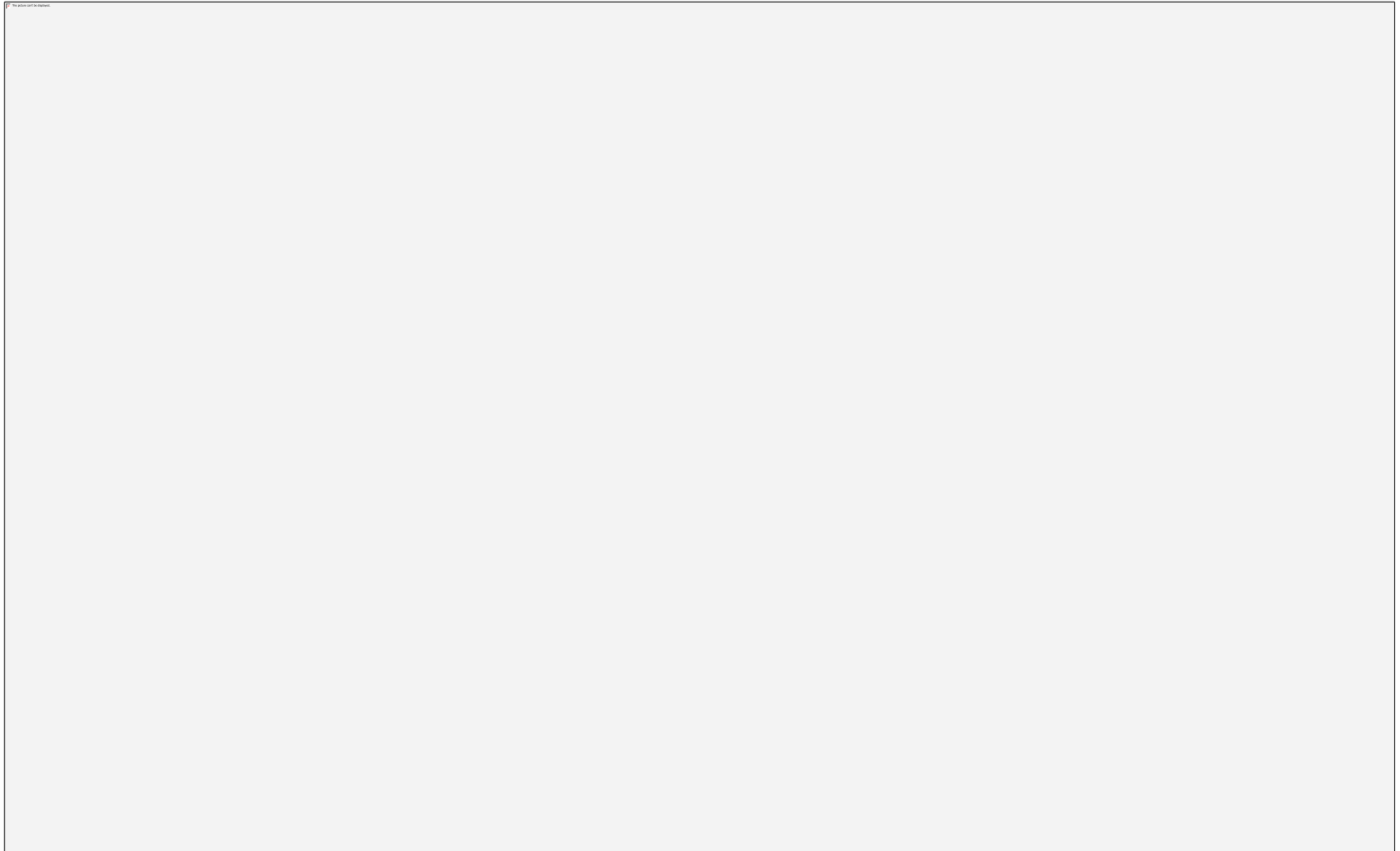
What inflation?



There's more ways than one to look at stock market valuations

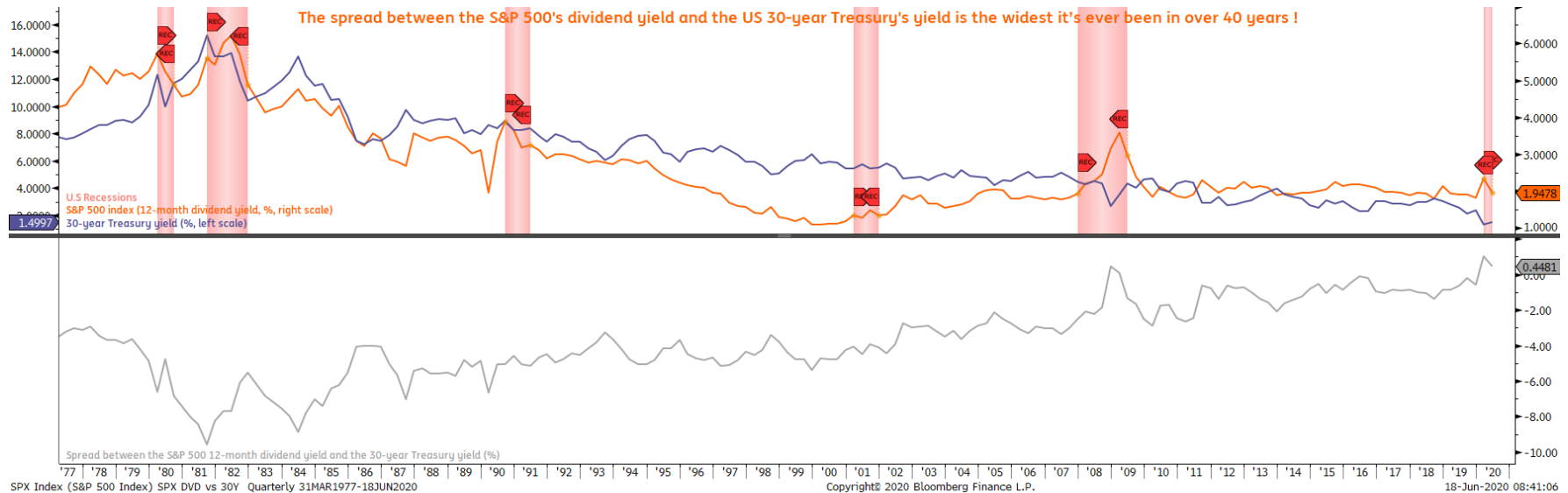


ERP in the US still relatively Ok



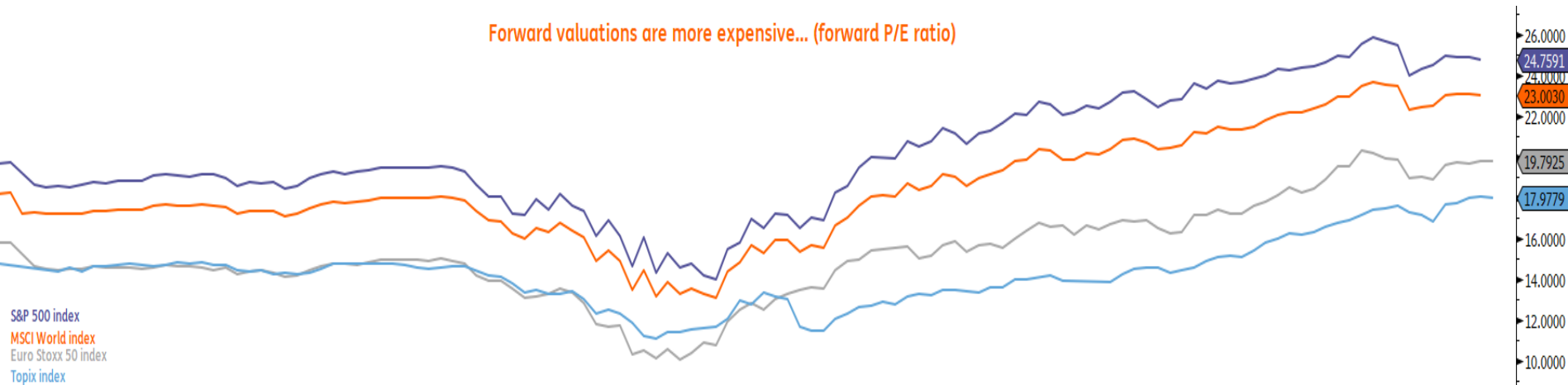
Source: H&B, Bloomberg

First underlying premise : real yields stay this negative

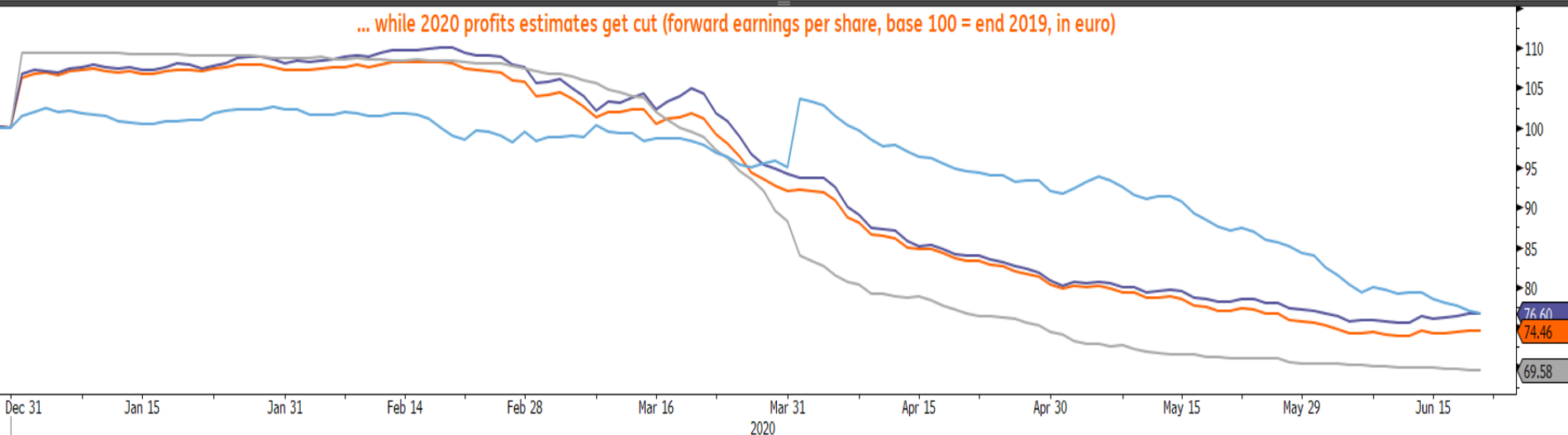


Second underlying premise : V-shaped earnings recovery

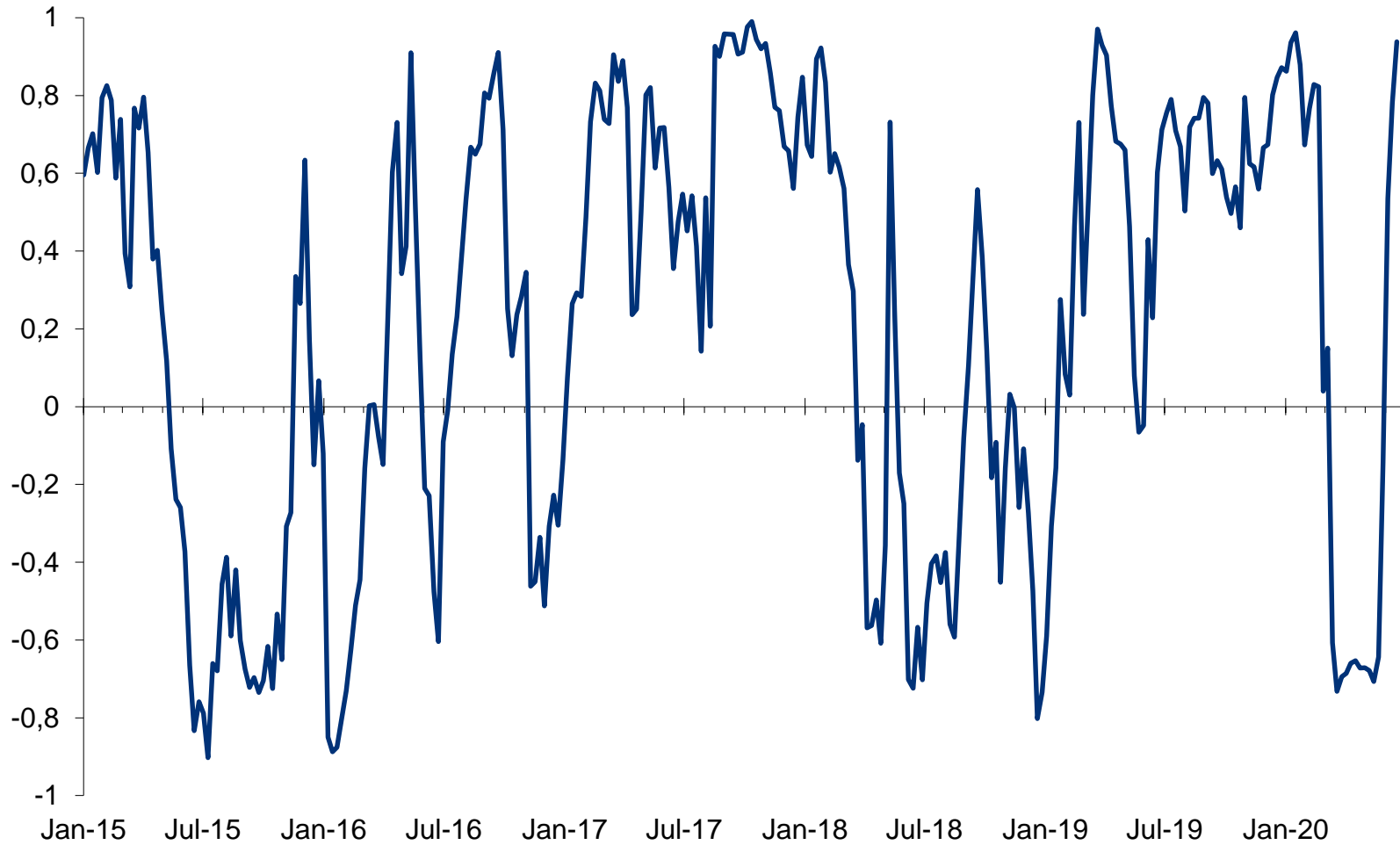
Forward valuations are more expensive... (forward P/E ratio)



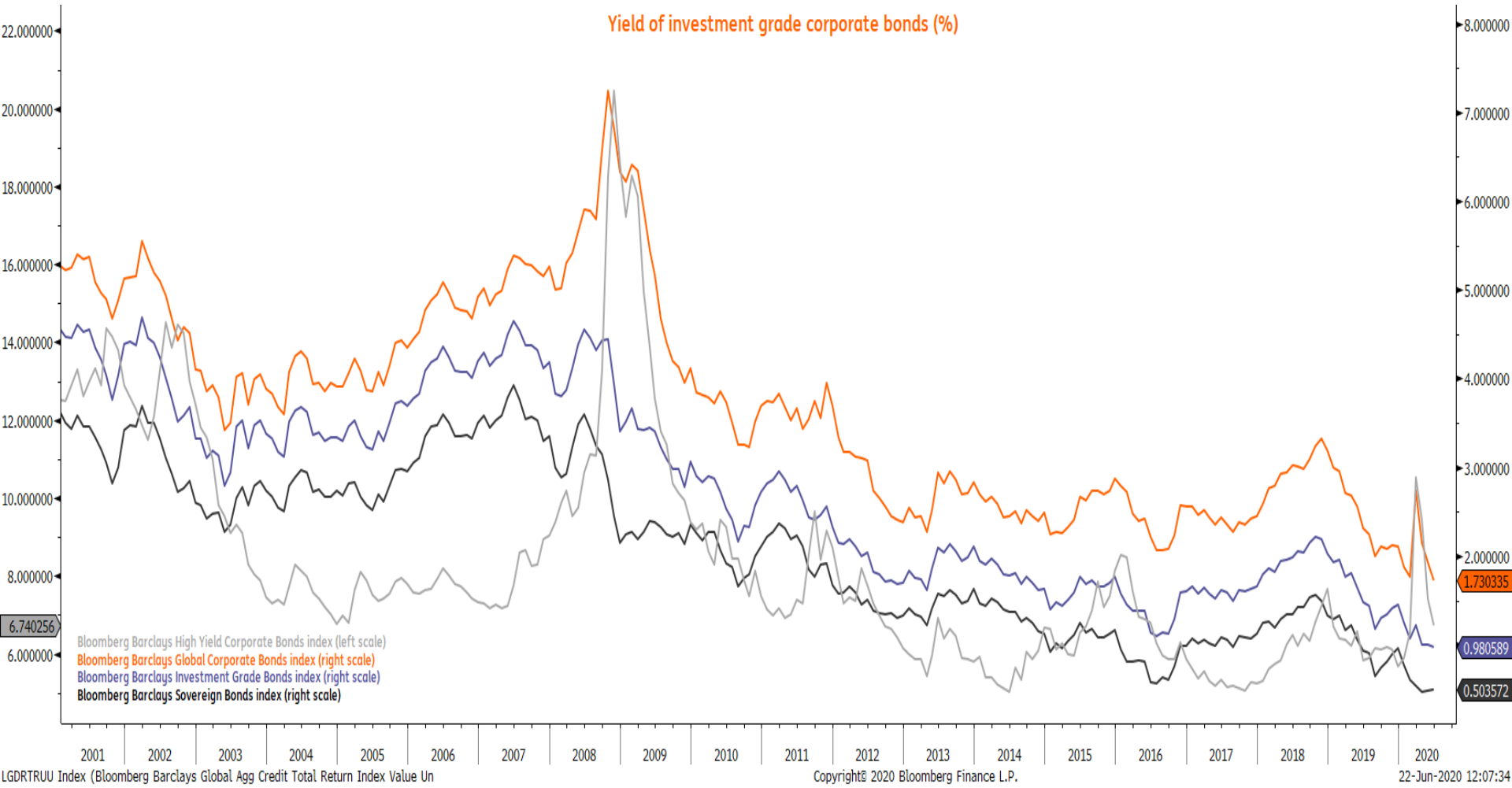
... while 2020 profits estimates get cut (forward earnings per share, base 100 = end 2019, in euro)



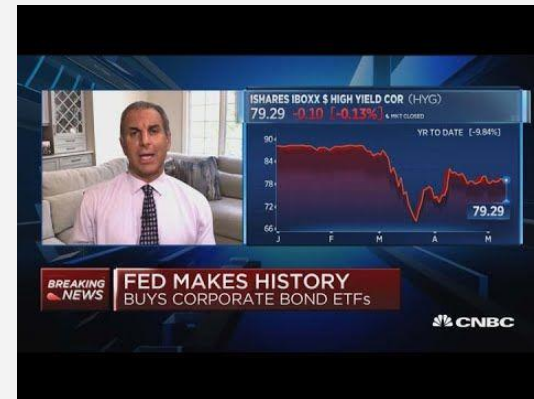
Risk appetite extremely positive again



Financial repression 2.0 : lower returns in FI



IG credit : recovering after being in the eye of the storm. Not exactly cheap



HY : spreads trading at levels implying default cycle is over already (1)

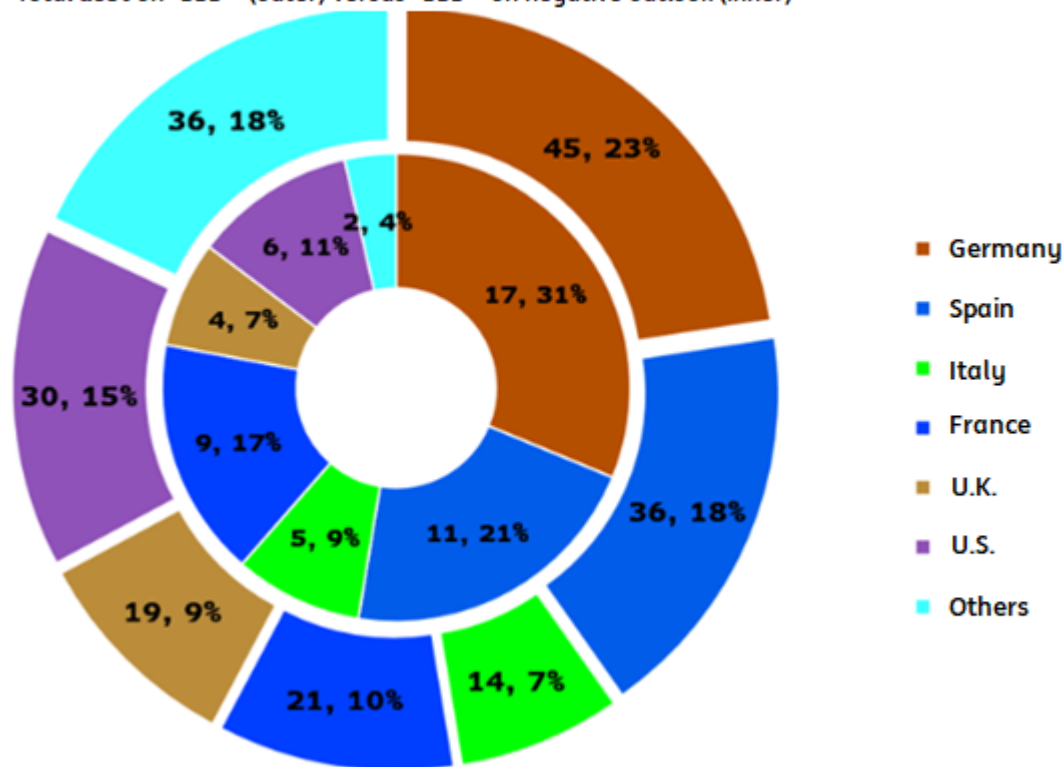
The monetary and fiscal policy mix is bullish for credit spreads



HY : spreads trading at levels implying default cycle is over already (2)

Negative outlook for debt with "BBB-" rating (€ billion)

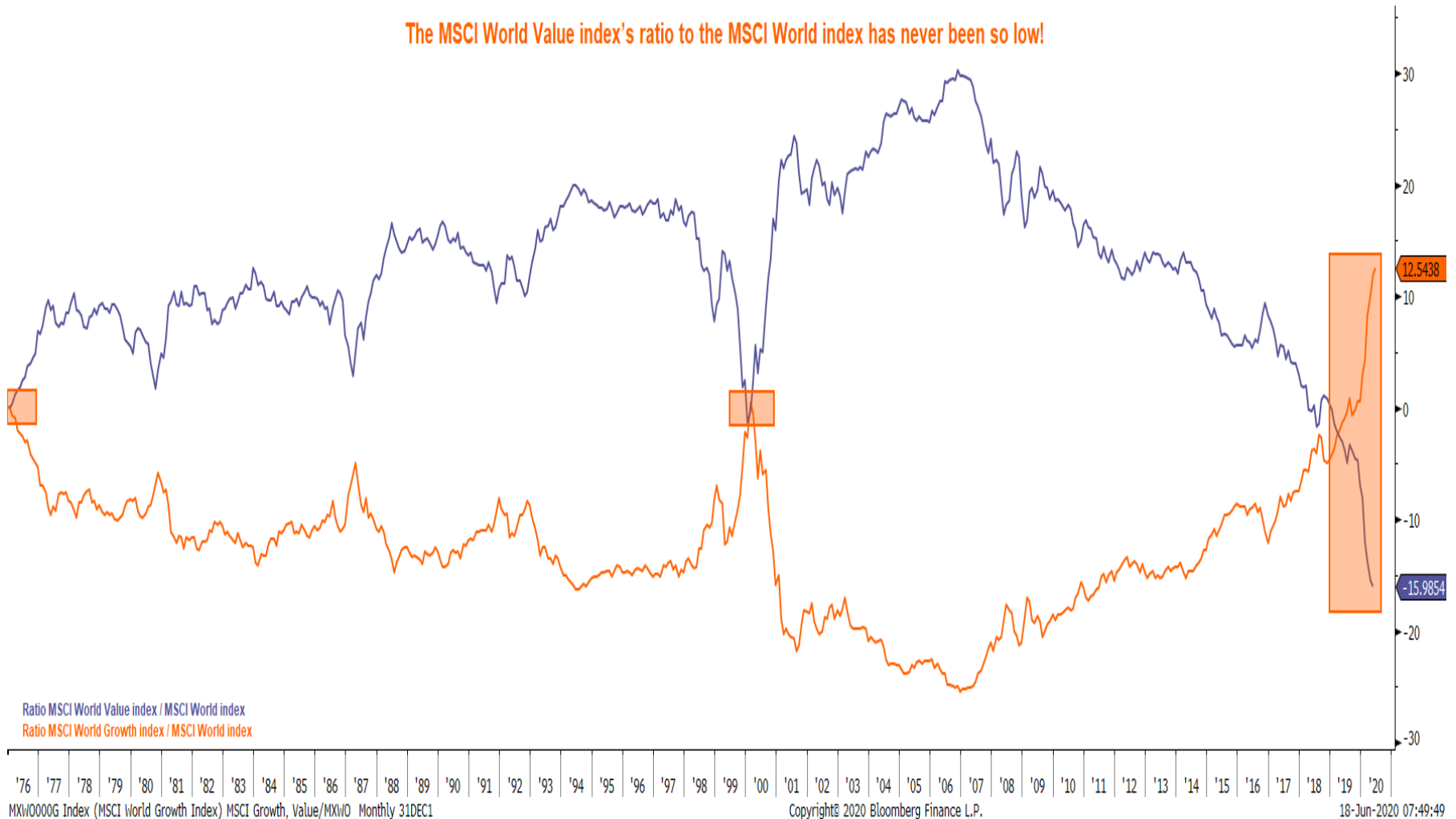
Total debt on "BBB-" (outer) versus "BBB-" on negative outlook (inner)



Source: Bloomberg

Trade v. investment: Value's fortune not expected to change *fundamentally* soon

The MSCI World Value index's ratio to the MSCI World index has never been so low!

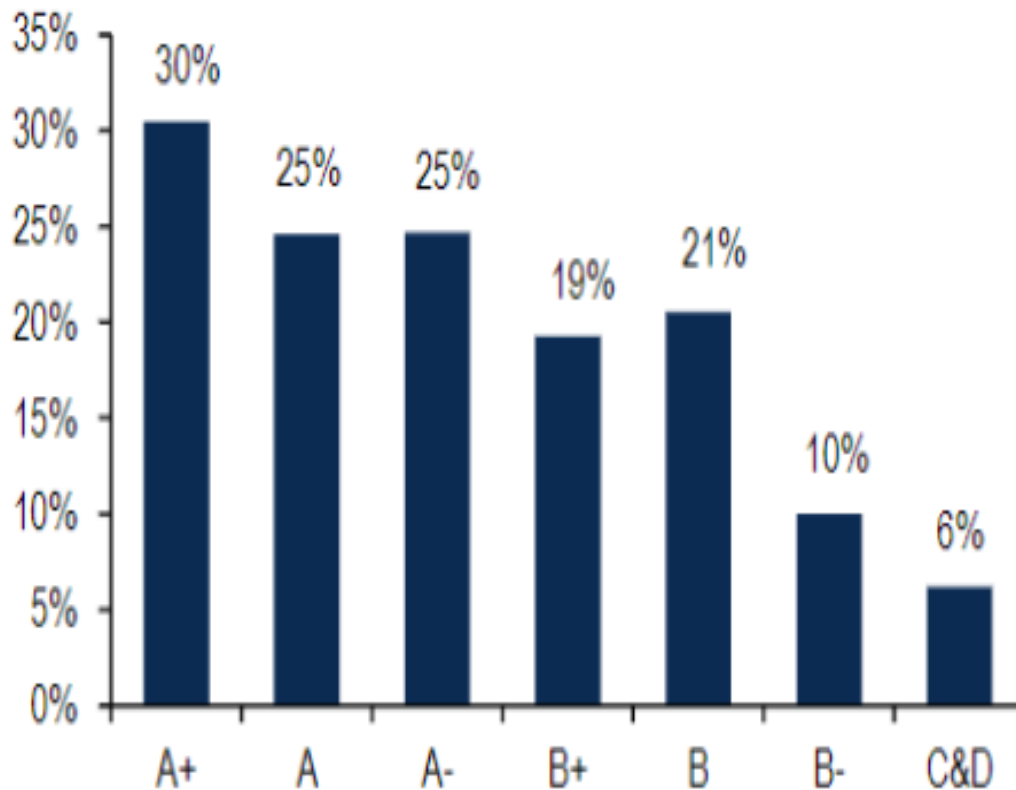


Quality shines the world over (1)



Quality shines the world over (2)

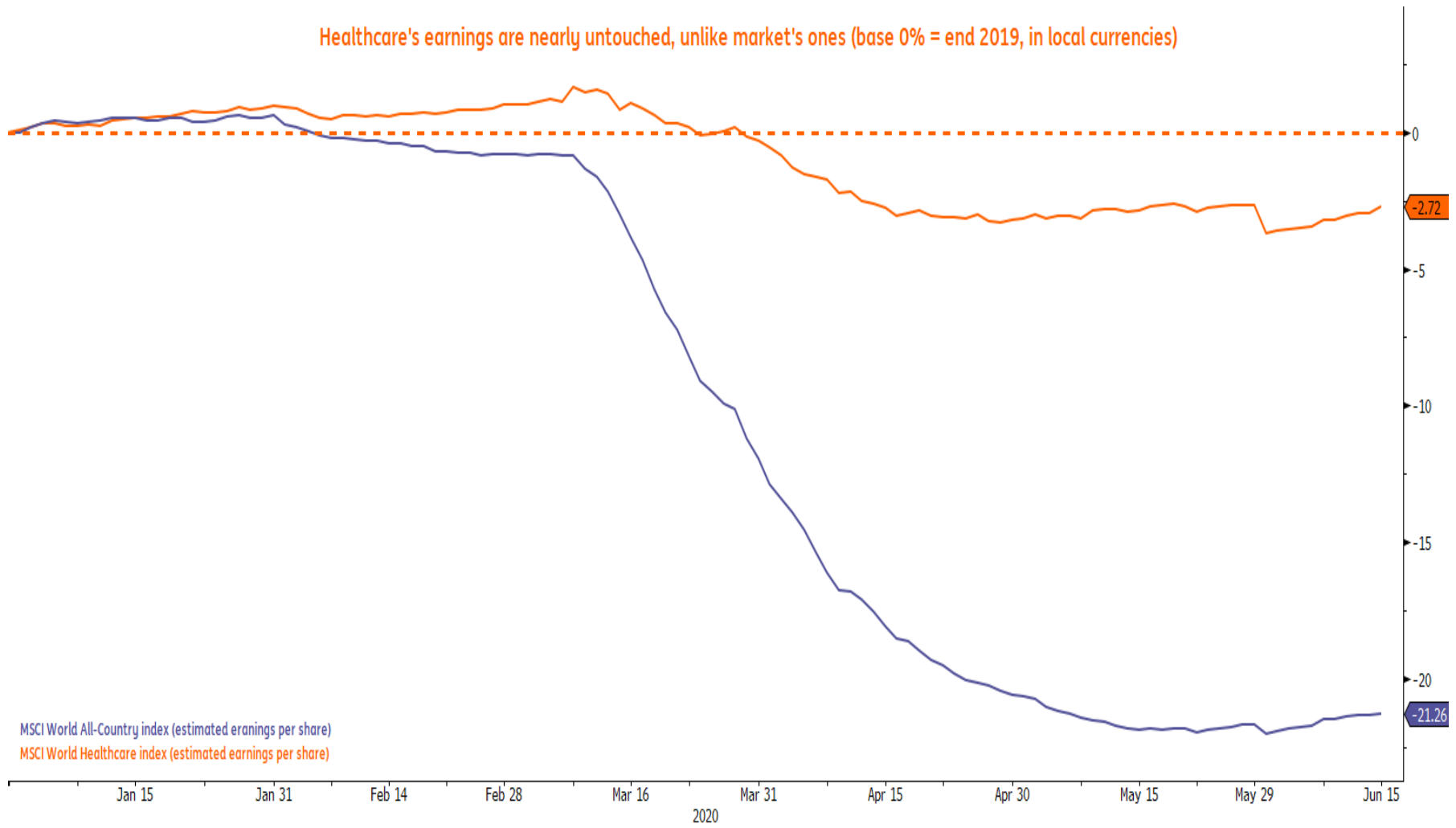
Average performance by S&P 500 quality stocks when the profits cycle decelerated (last seven cycles, 1988-present)



Source: BofA Merrill Lynch US Equity and Quant Strategv. S&P

You don't want to be short on pharma stocks!

Healthcare's earnings are nearly untouched, unlike market's ones (base 0% = end 2019, in local currencies)



MSCI World All-Country index (estimated earnings per share)
MSCI World Healthcare index (estimated earnings per share)

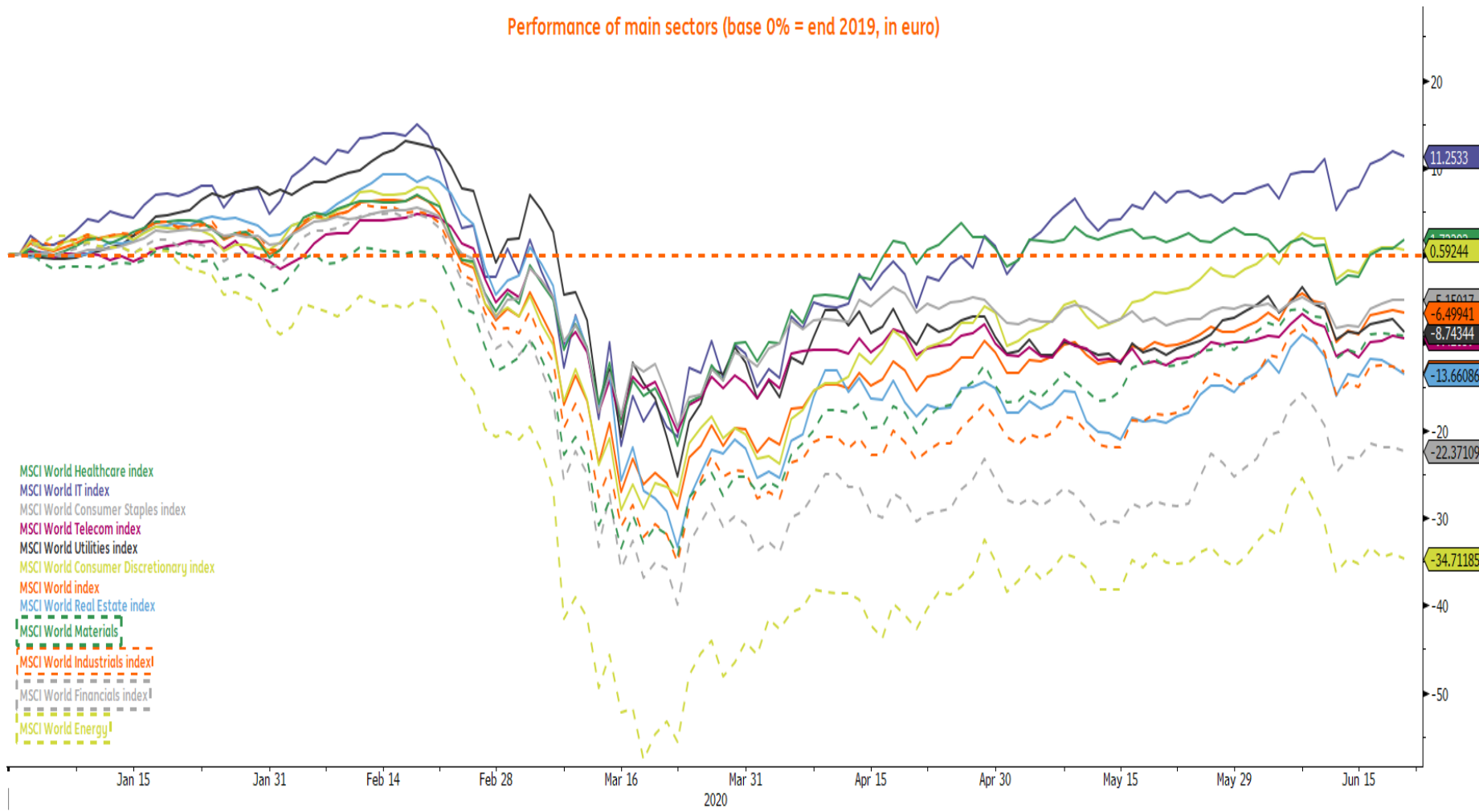
MXWD0HC Index (MSCI ACWI Health Care Index) pharma eps Daily 31DEC2019-16JUN202

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Technology stocks are luring record inflows

Performance of main sectors (base 0% = end 2019, in euro)



MXWD Index (MSCI ACWI Index) perf sect wd Daily 31DEC2019-22JUN2020

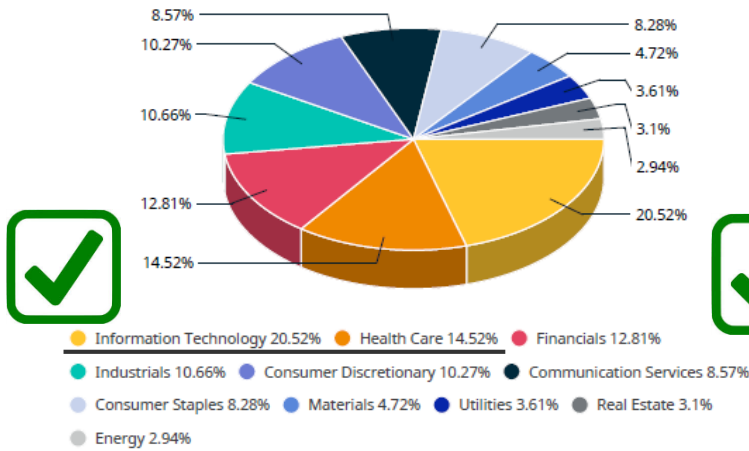
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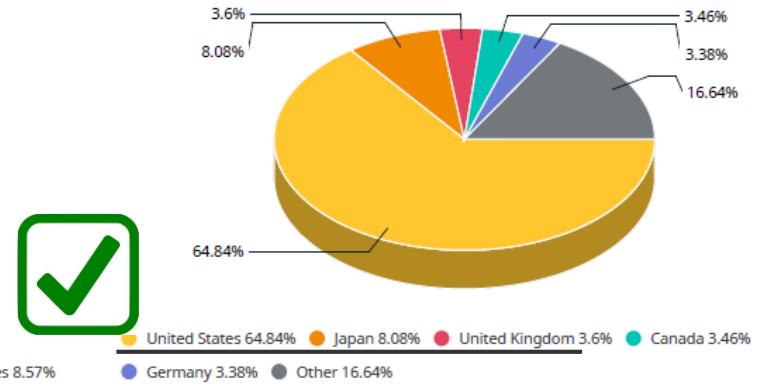
Sustainable : ESG and factor investing



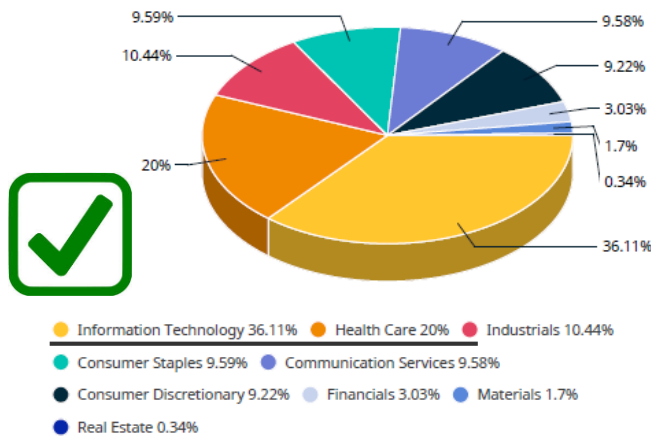
SECTOR WEIGHTS



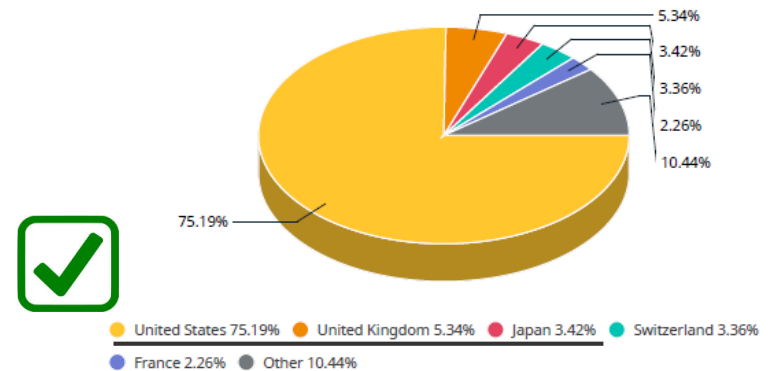
COUNTRY WEIGHTS



SECTOR WEIGHTS



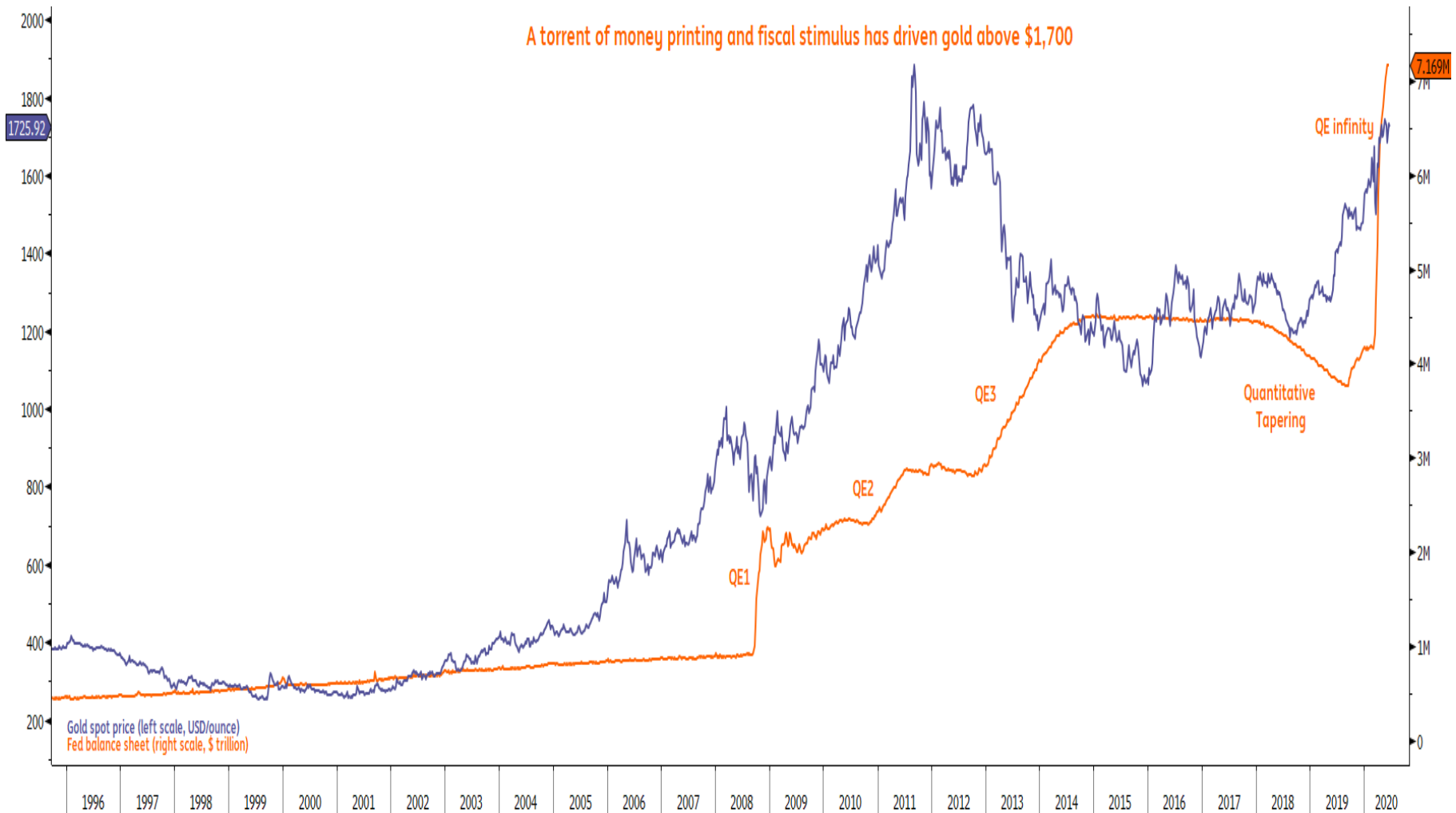
COUNTRY WEIGHTS



Quality
Degree of excellence or with the standard of something superior, high grade, or essential characteristic of

Gold is 'Powelling' up. The need for hedging

A torrent of money printing and fiscal stimulus has driven gold above \$1,700



FARBAST Index (US Condition of All Federal Reserve Banks Total Assets) Gold vs F

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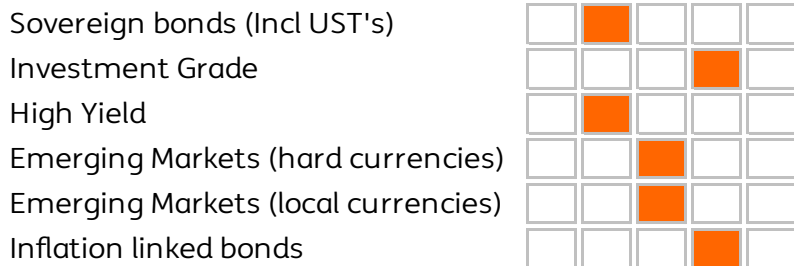
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TAA Summary (as of June 15th)

Asset Allocation



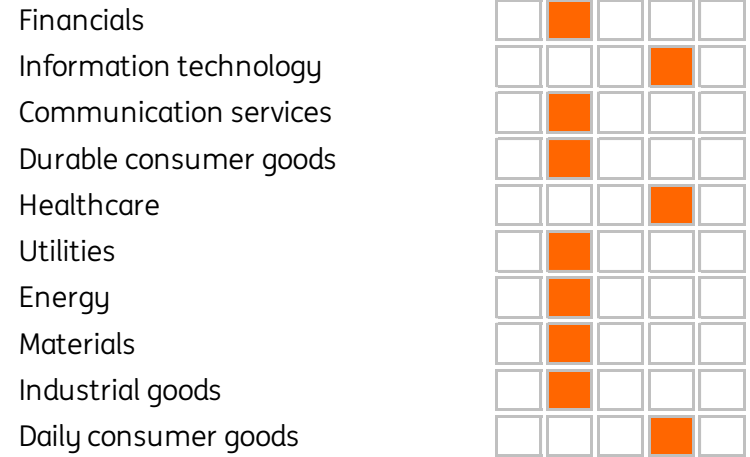
Bonds Allocation



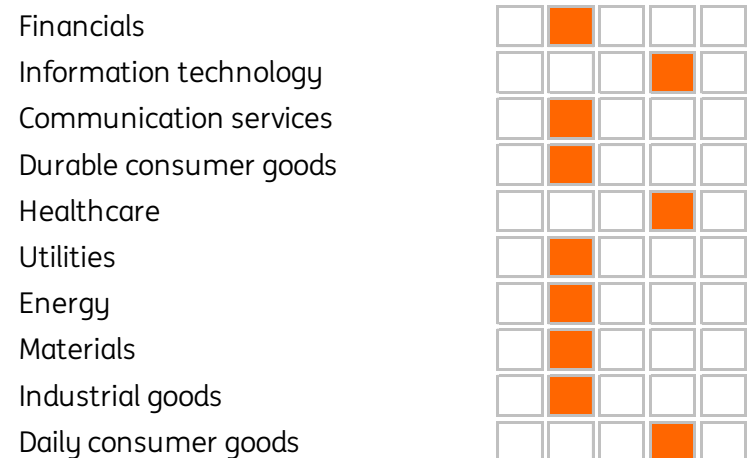
Regional Allocation



Sector Allocation Europe



Sector Allocation US



Q&A from the home office



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