


Outlook 2018

- Global Economic Outlook
- Investment strategy

Global Economic Outlook

What's cooking for  ?

Macro Research

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Agenda

2018

1
Continuing
recovery

2
Slowflation to
pick up from
here

3
Central
bankers
turning more
hawkish

4
Sustainable
Eurozone
boom?

5
Risks on the
horizon

6
Conclusion



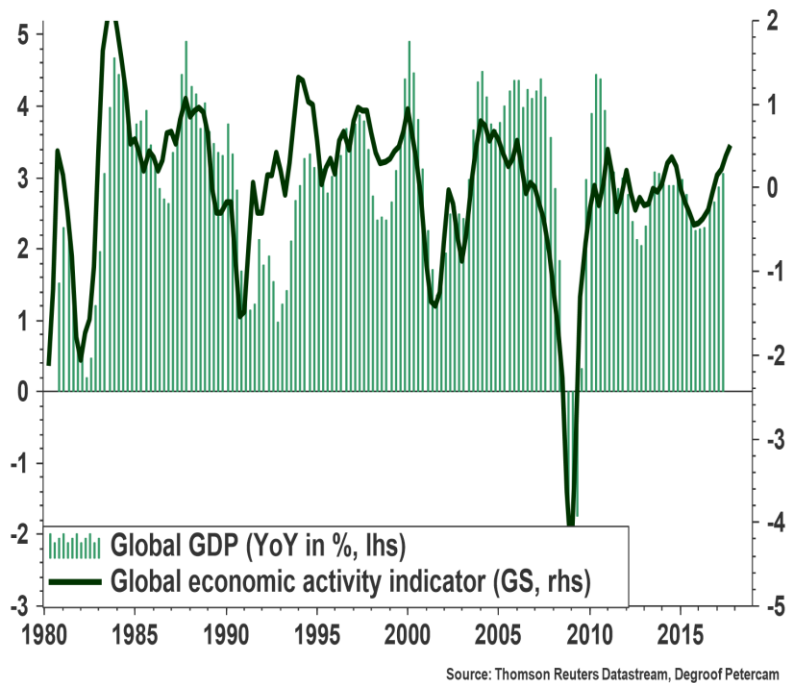
1 Continuing recovery



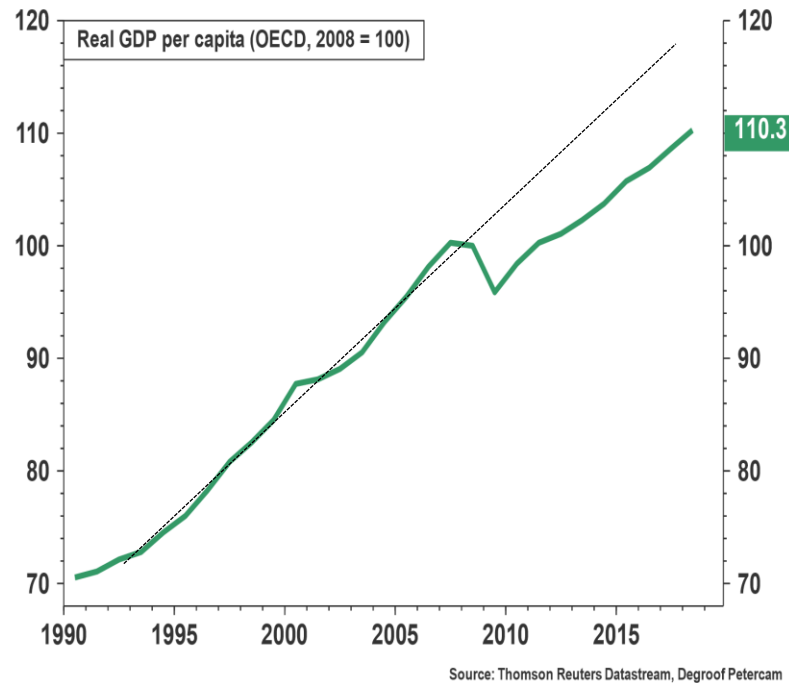
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Global economic recovery

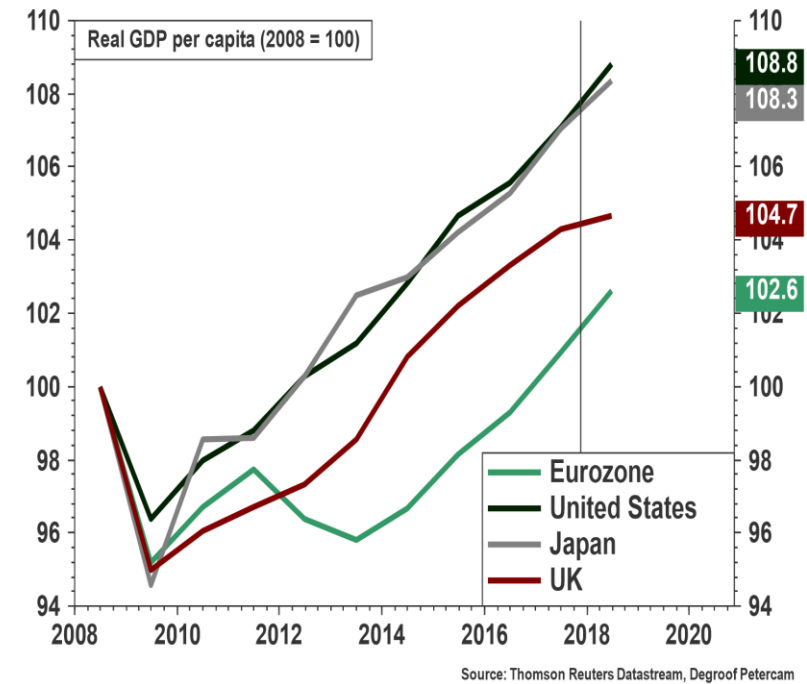
1) Cyclical upturn



2) Slower post-crisis trend

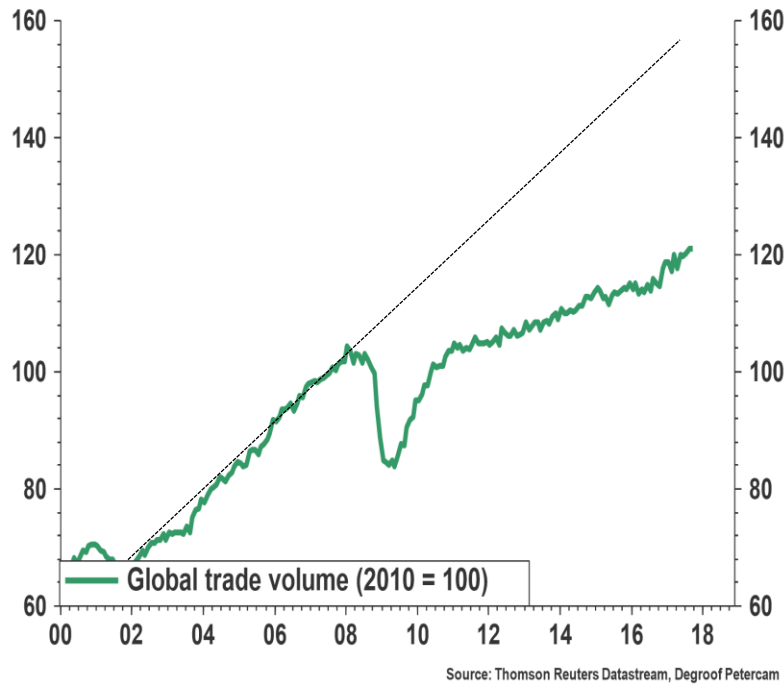


3) Increasing living standards

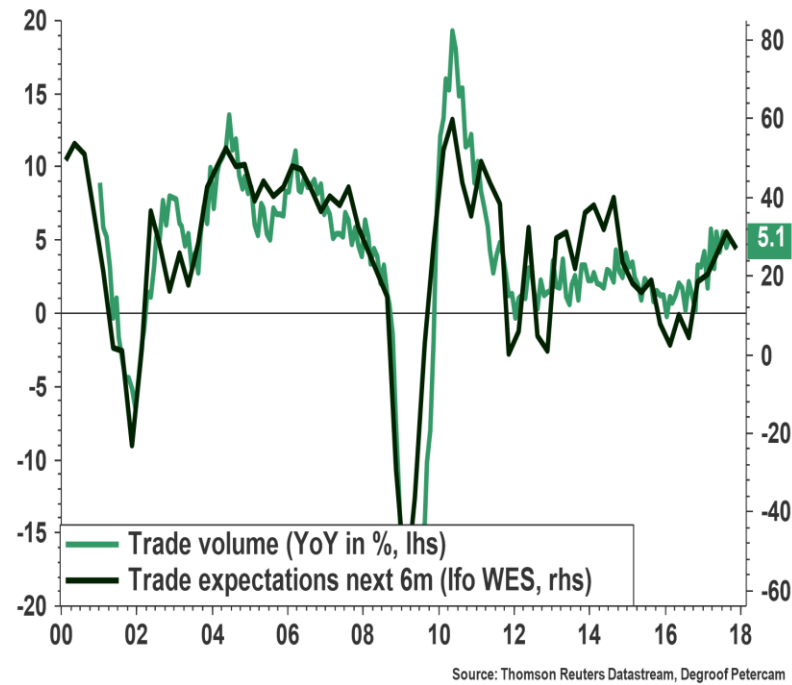


Global trade recovery

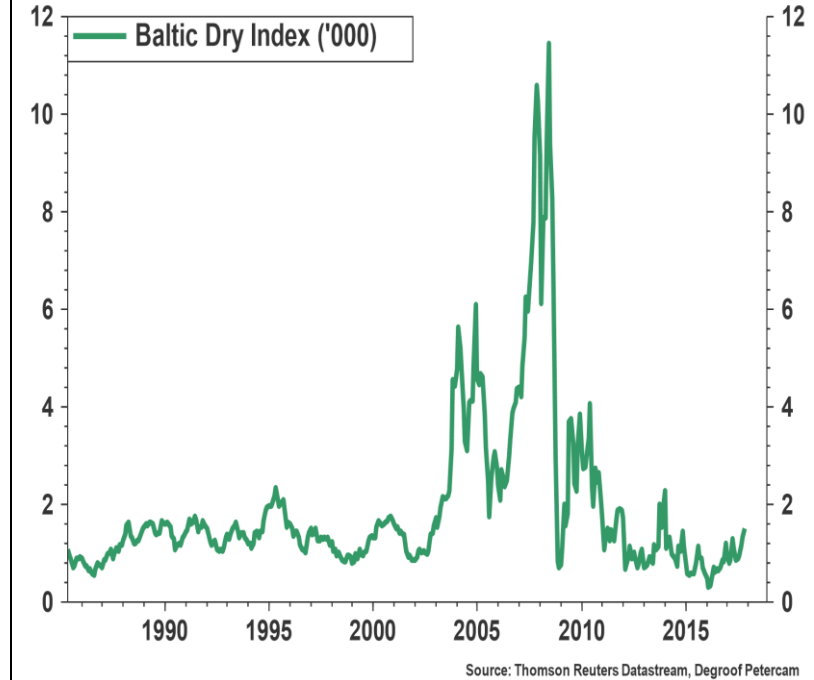
1) On a slower growth path



2) Global trade recovery

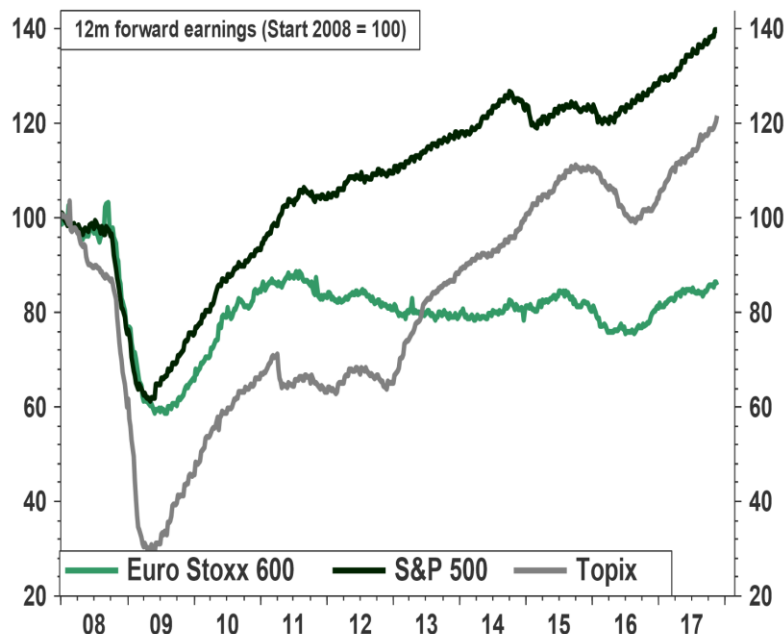


3) BDI only slowly creeping up



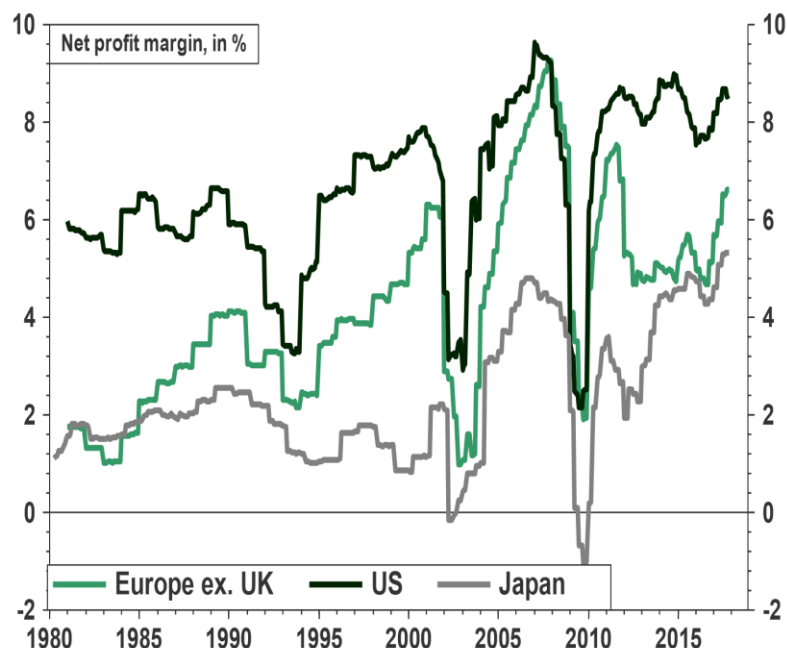
Global company profit recovery

1) Improving profit outlook



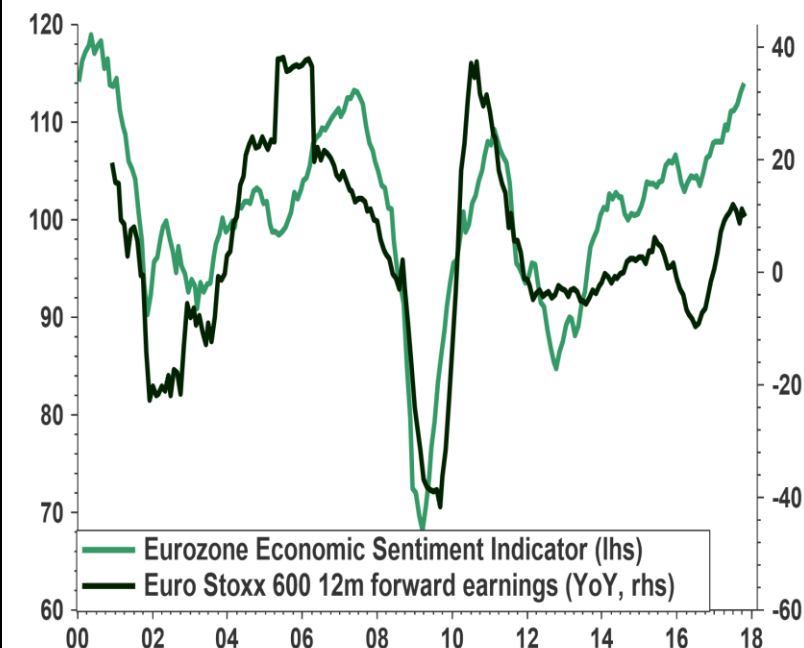
Source: Thomson Reuters Datastream, Degroof Petercam

2) Higher profit margins



Source: Thomson Reuters Datastream, Degroof Petercam

3) More to come in Europe ?

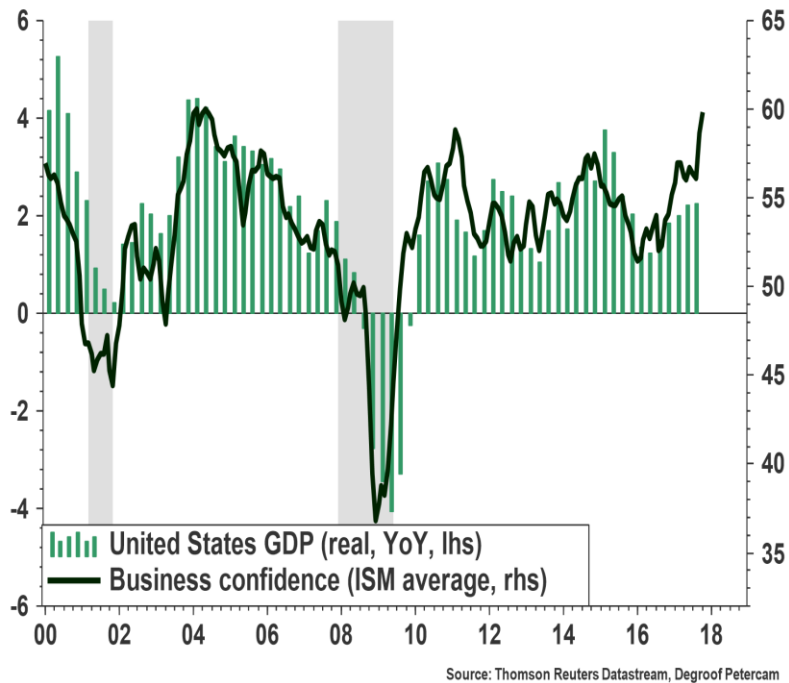


Source: Thomson Reuters Datastream, Degroof Petercam

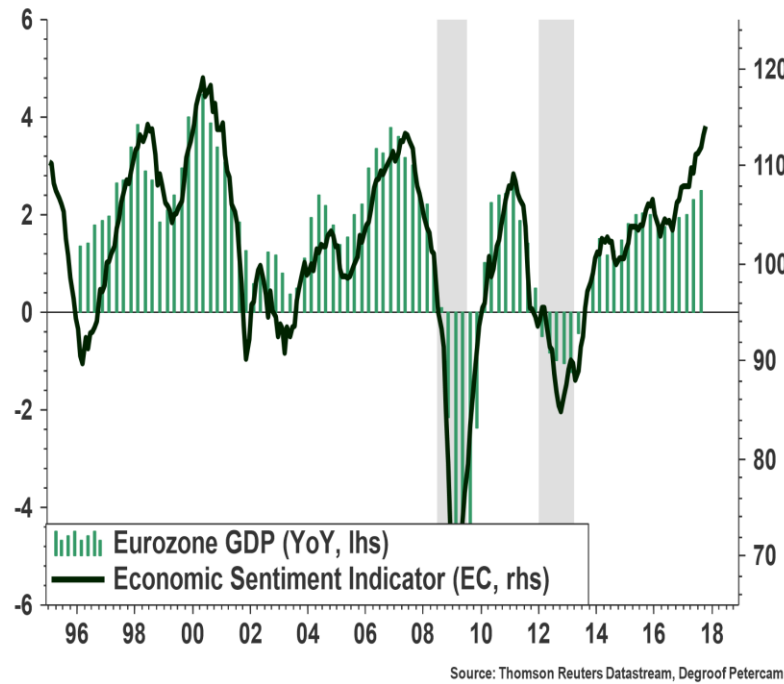


Confidence indicators point to solid cyclical prospects for now

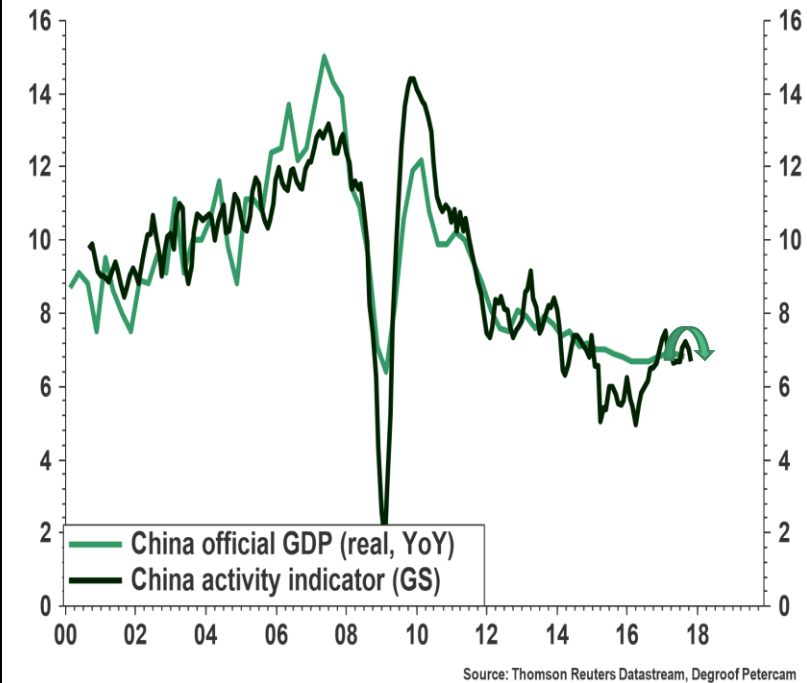
1) United States



2) Europe

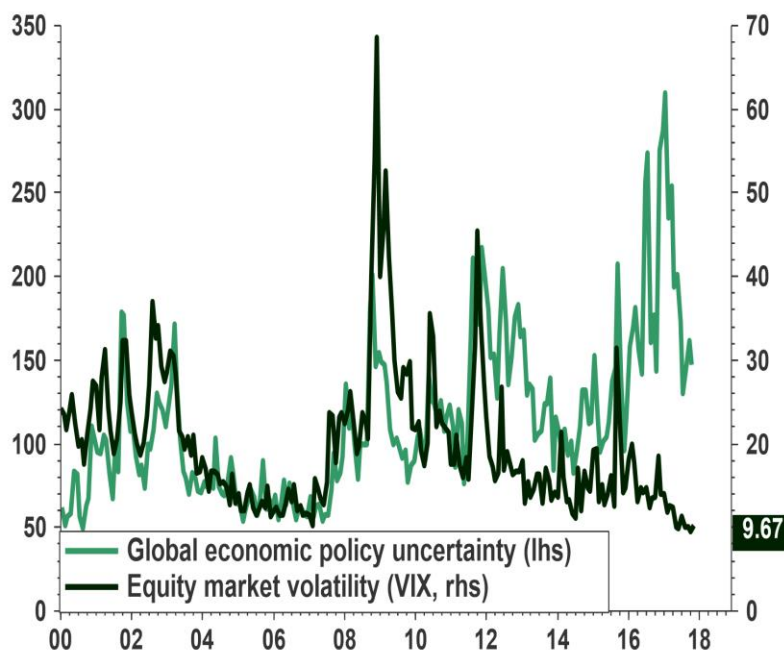


3) China



The recovery looks set to continue into 2018

1) Economic policy uncertainty in decline



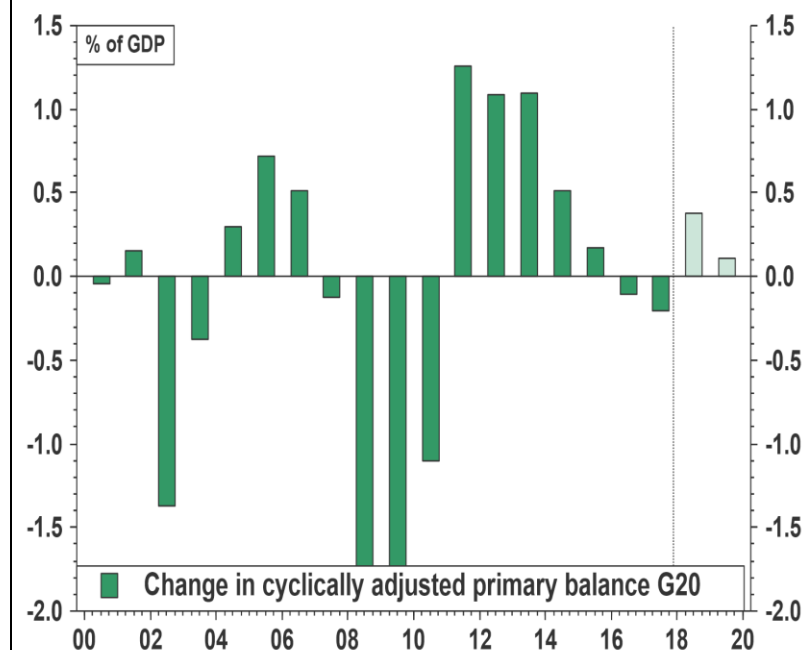
Source: Thomson Reuters Datastream, Degroof Petercam

2) Monetary conditions still loose



Source: Thomson Reuters Datastream, Degroof Petercam

3) Fiscal stance broadly neutral

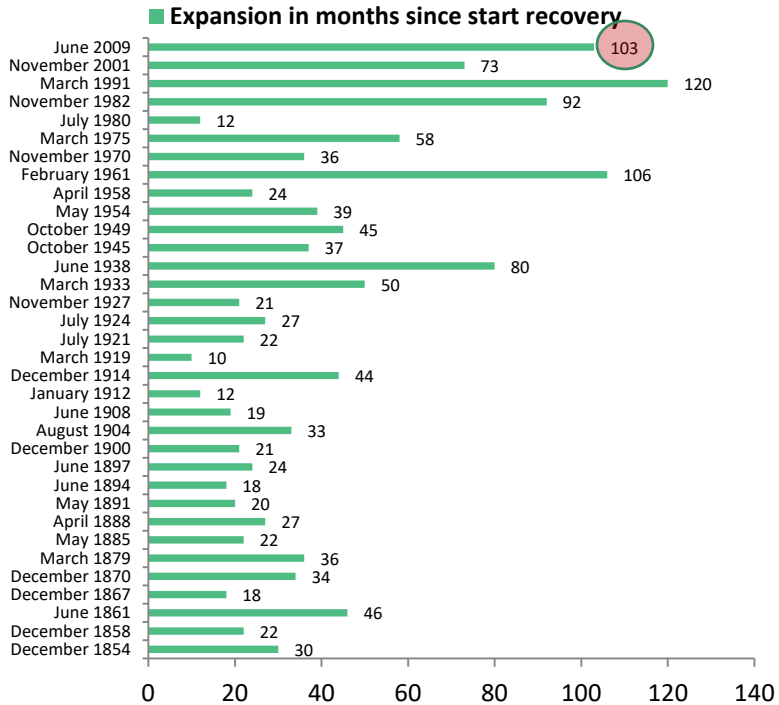


Source: Thomson Reuters Datastream, Degroof Petercam



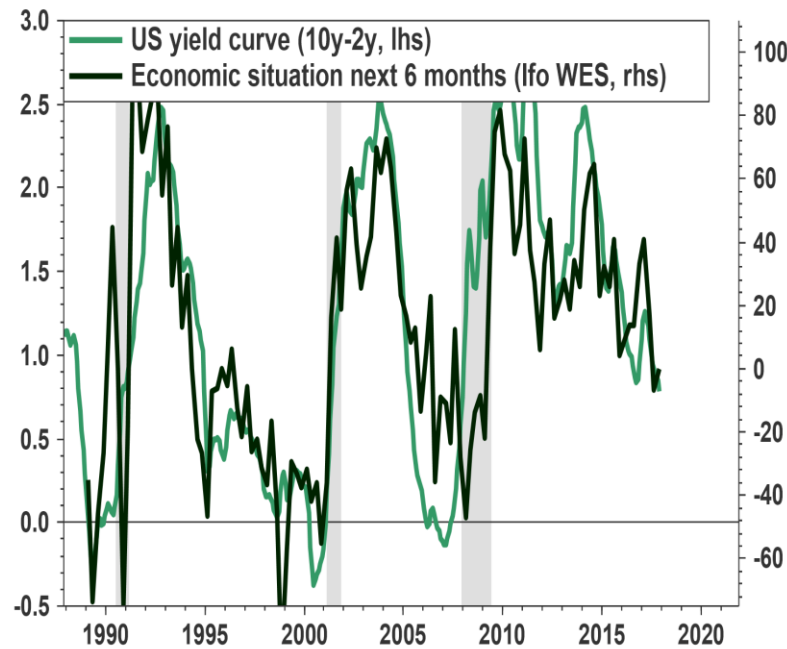
As good as it gets?

1) Already the third-longest US expansion ever



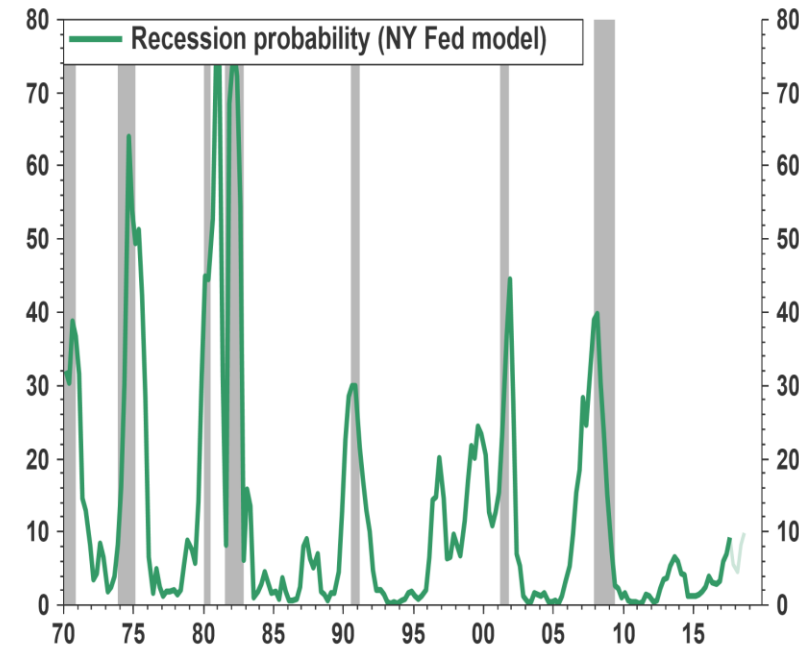
Source: National Bureau of Economic Research, Degroof Petercam

2) Flattening yield curve points to slowdown



Source: Thomson Reuters Datastream, Degroof Petercam

3) Recession odds still low for now

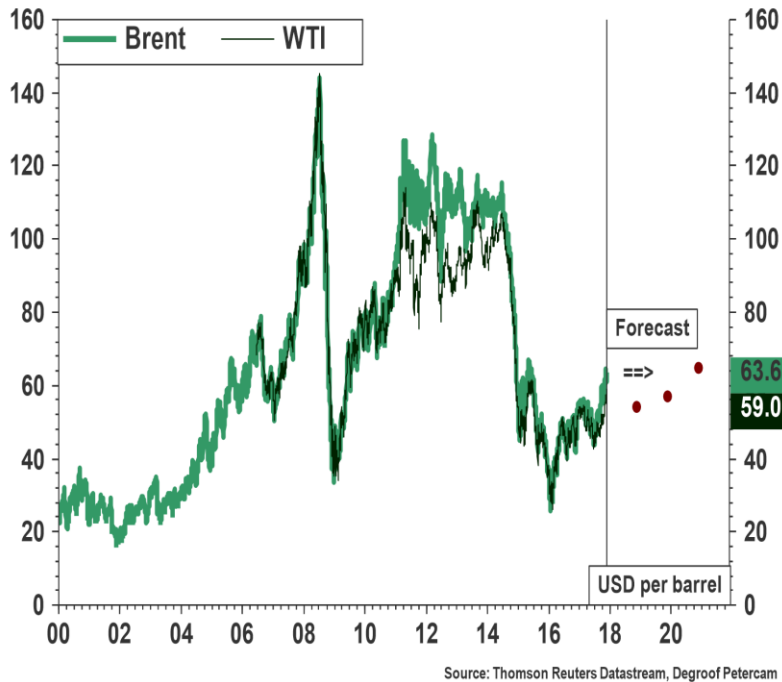


Source: Thomson Reuters Datastream, Degroof Petercam

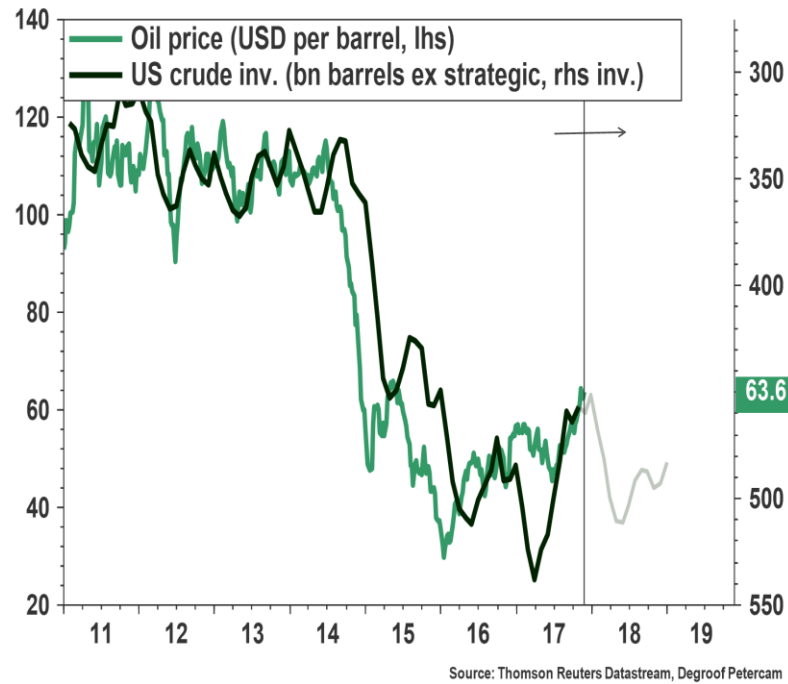


Limited upward potential for the oil price

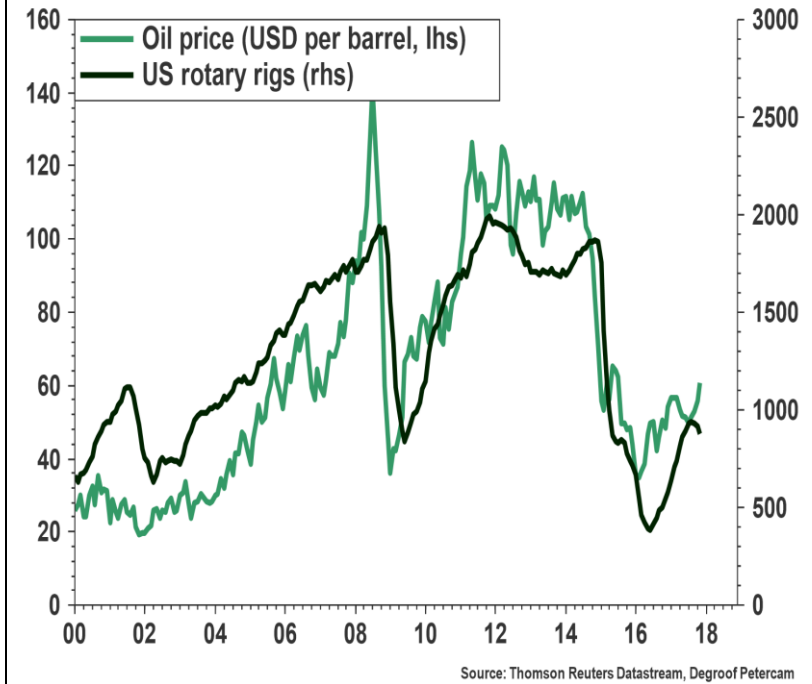
1) Oil price to remain lower for longer



2) US inventory levels expected to remain high



3) Shale producers getting back in business

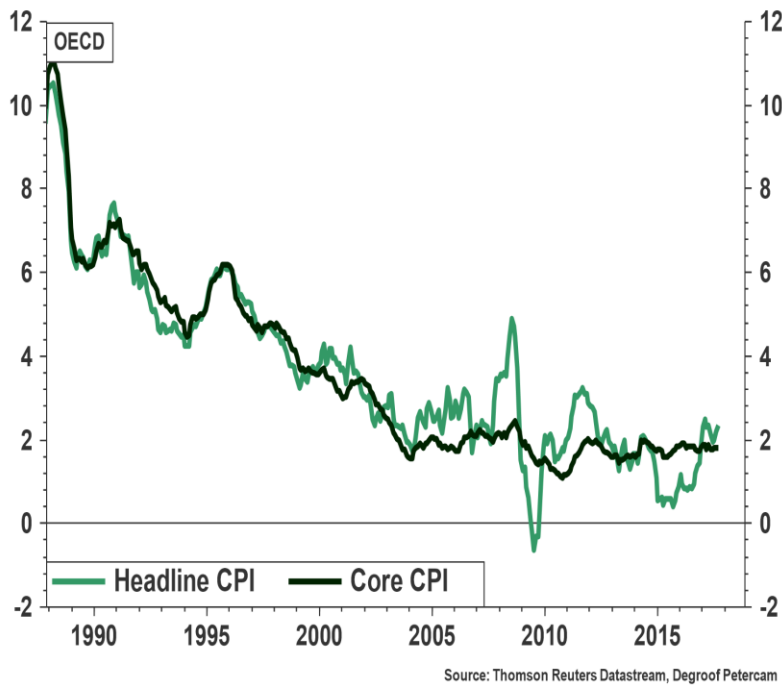


2
Slowflation to
pick up

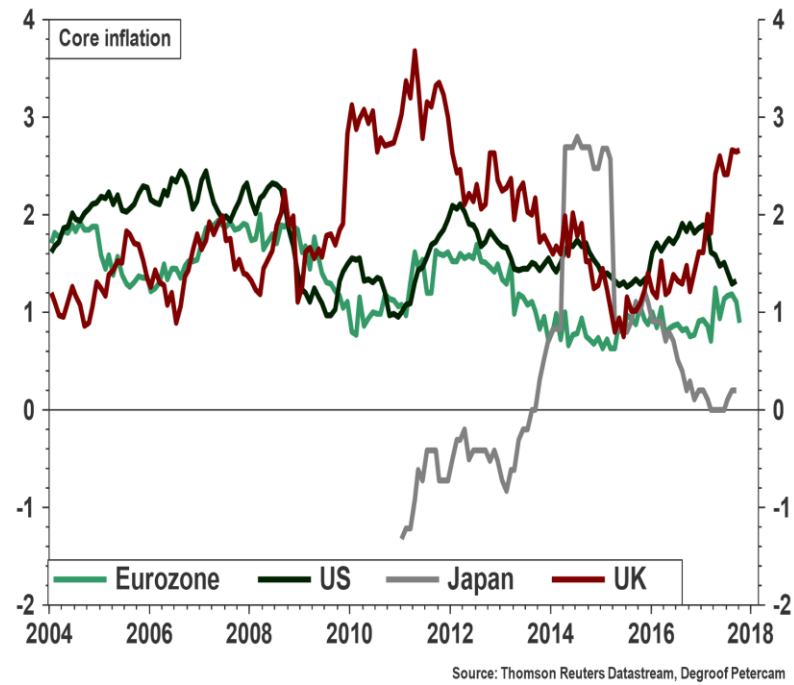


Inflation still subdued

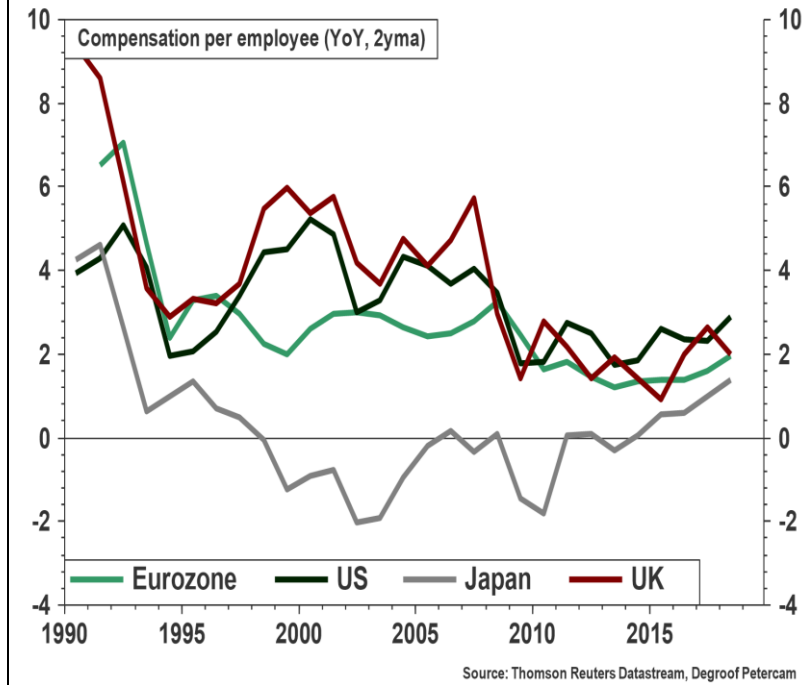
1) Underlying inflation is low and stable



2) Inflation mostly below 2% target

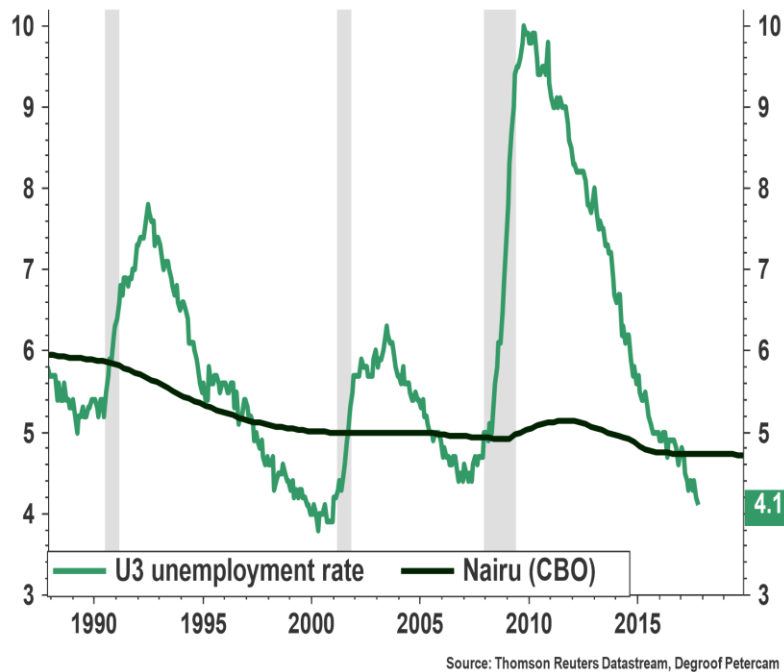


3) Wage growth still subdued

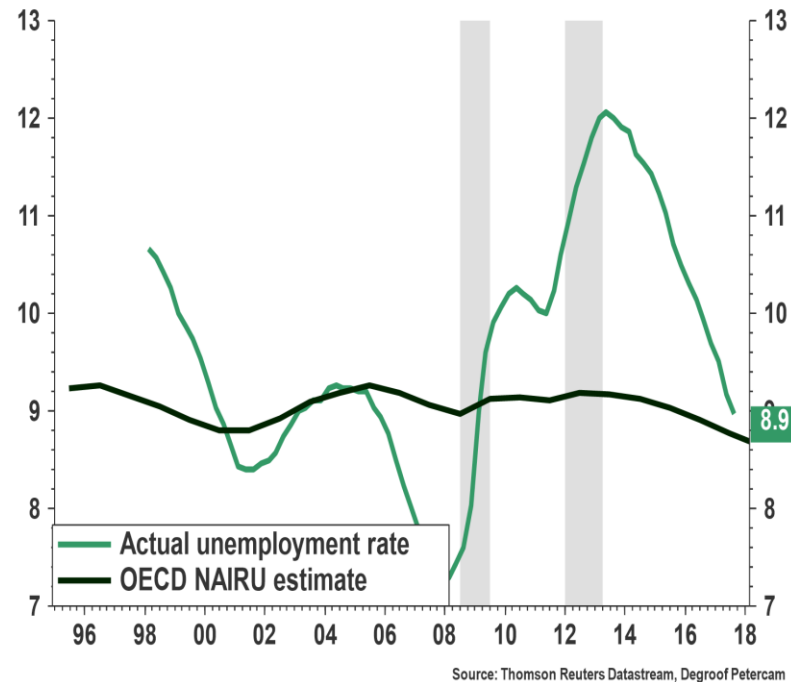


Labour markets in the US and Japan increasingly tight

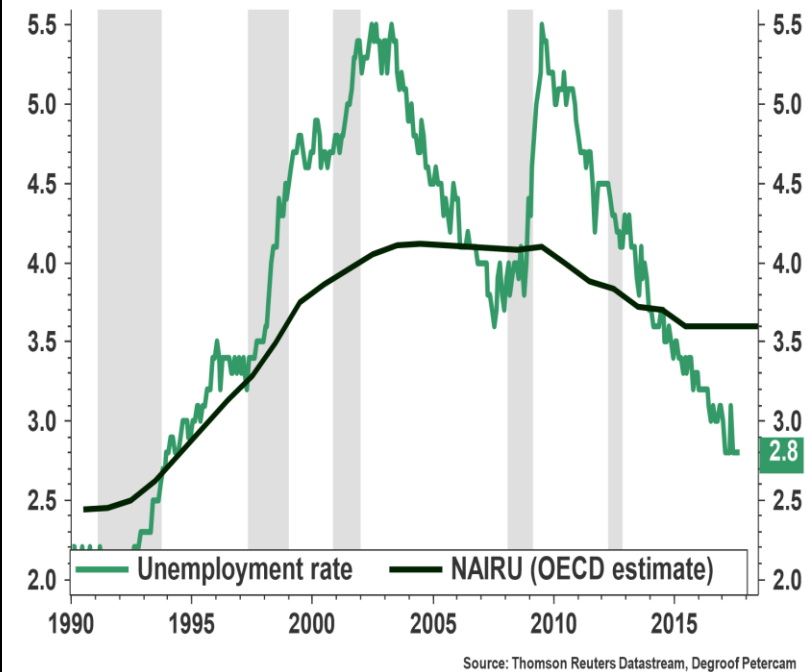
1) United States



2) Eurozone

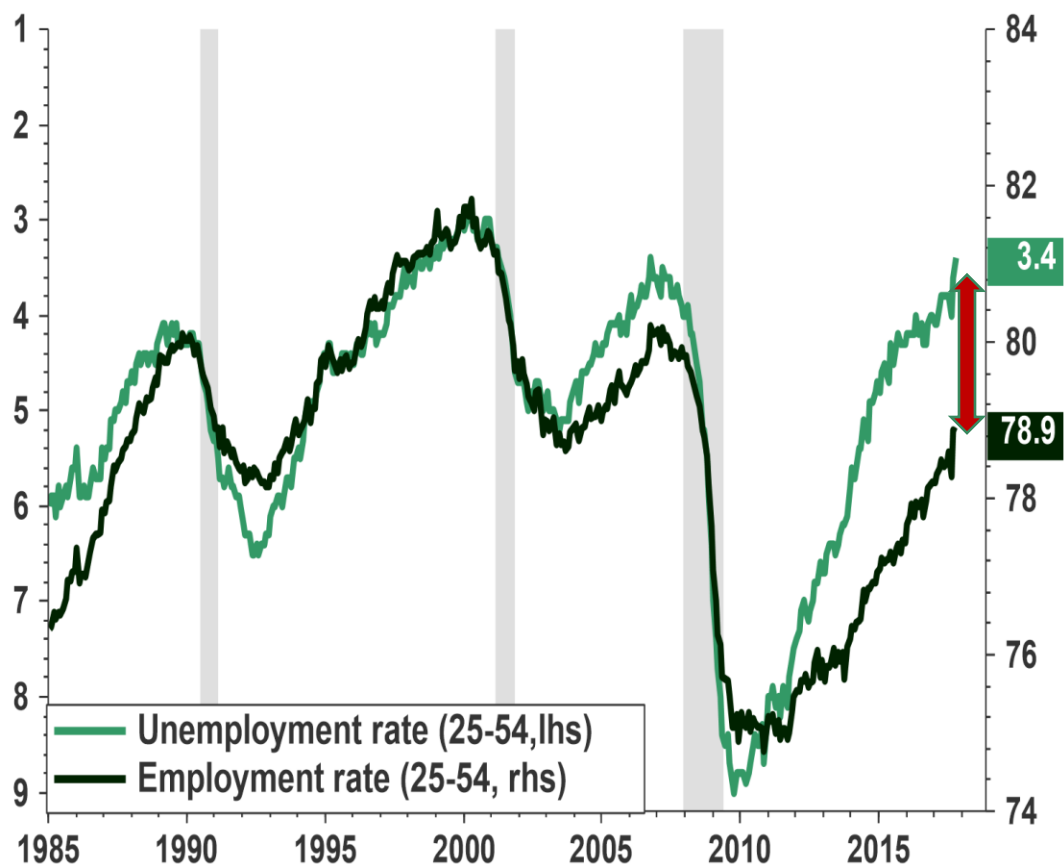


3) Japan



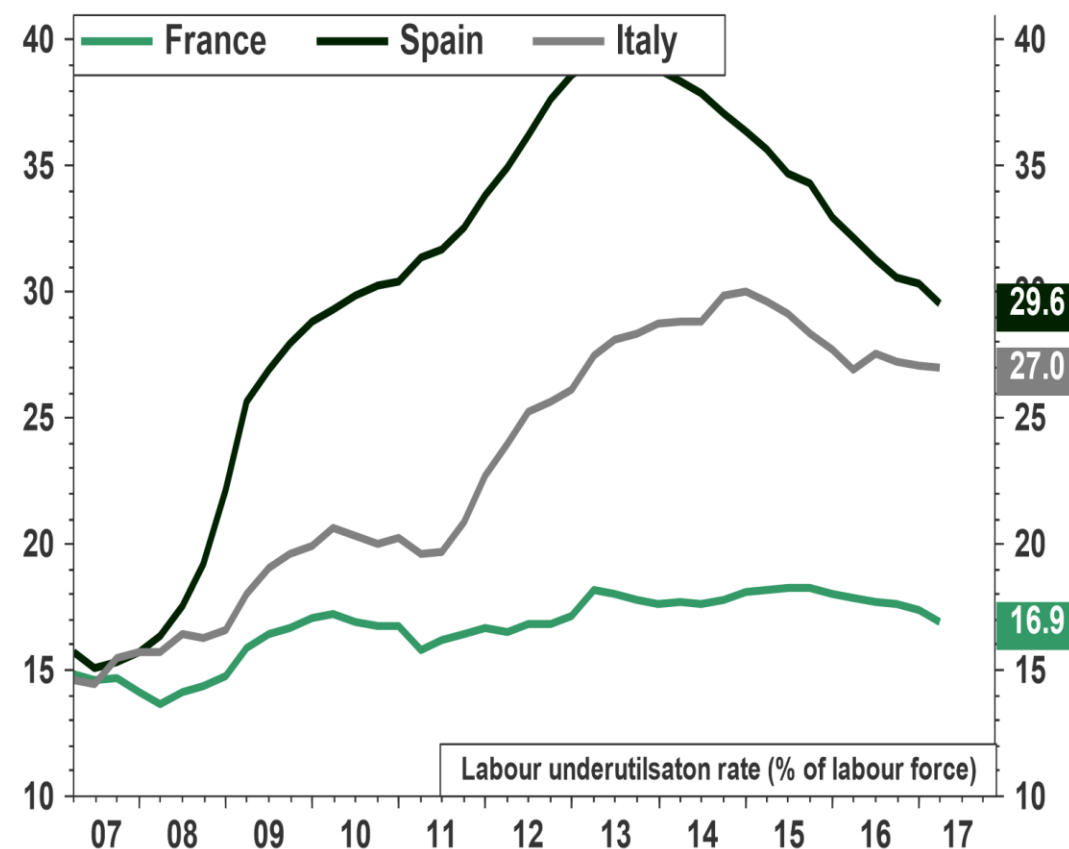
But unemployment rates are an incomplete measure of slack

1) Core employment still significantly below pre-crisis level in US



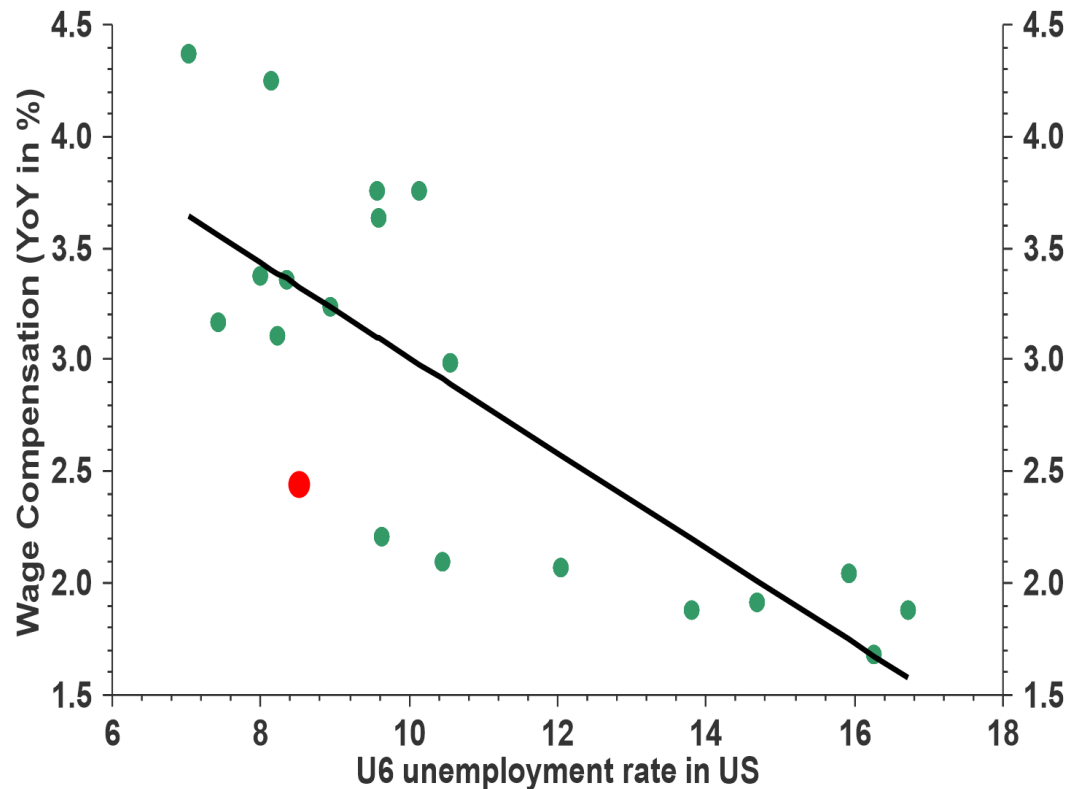
Source: Thomson Reuters Datastream, Degroof Petercam

2) Still a large amount of labour underutilisation in Europe



Source: Thomson Reuters Datastream, Degroof Petercam

Reasons for flatter Phillips curve

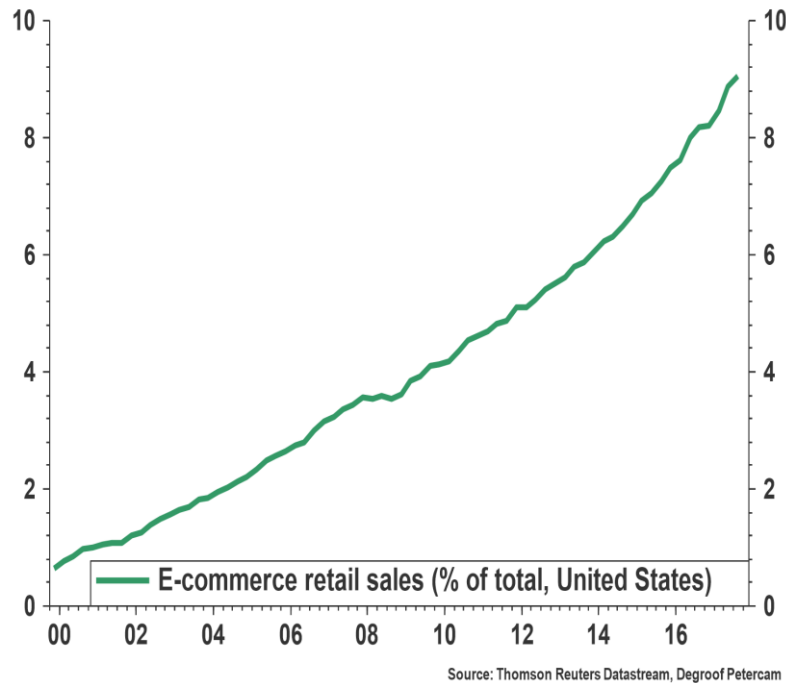


Source: Thomson Reuters Datastream, Degroof Petercam

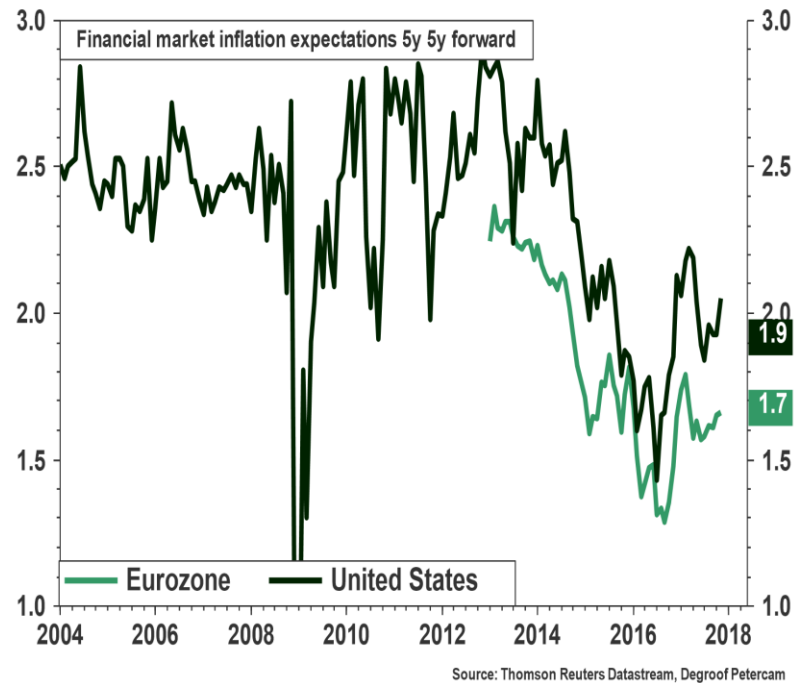
- ✓ Globalisation and technological change
- ✓ Ageing of the population
- ✓ Inflation expectations anchored at lower level
- ✓ Little confidence that policy can boost inflation
- ✓ Income inequality
- ✓ Waning trade union power
- ✓ Part-time, temporary and flexible working

Reasons for flatter Phillips curve (2)

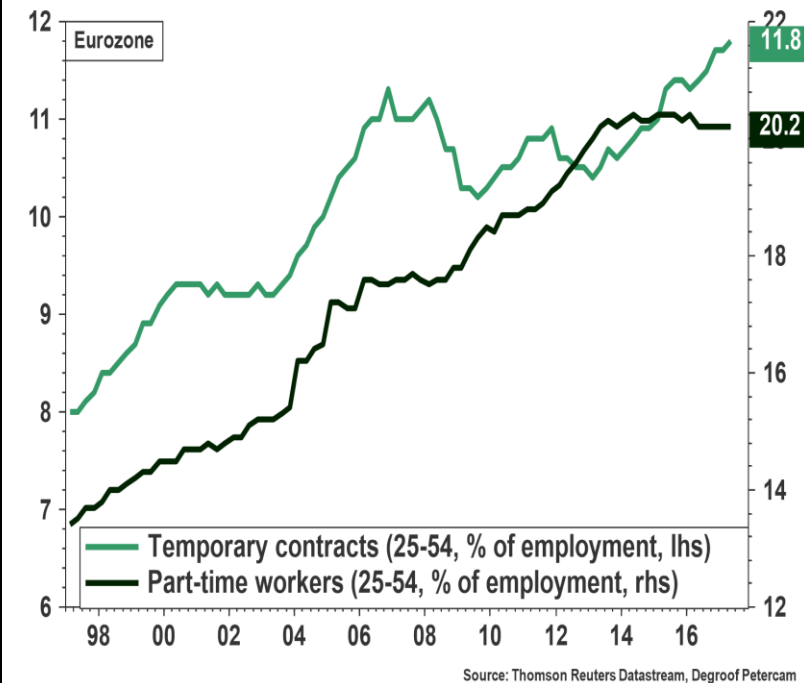
1) Digital sales rising fast



2) Lower anchored inflation expectations

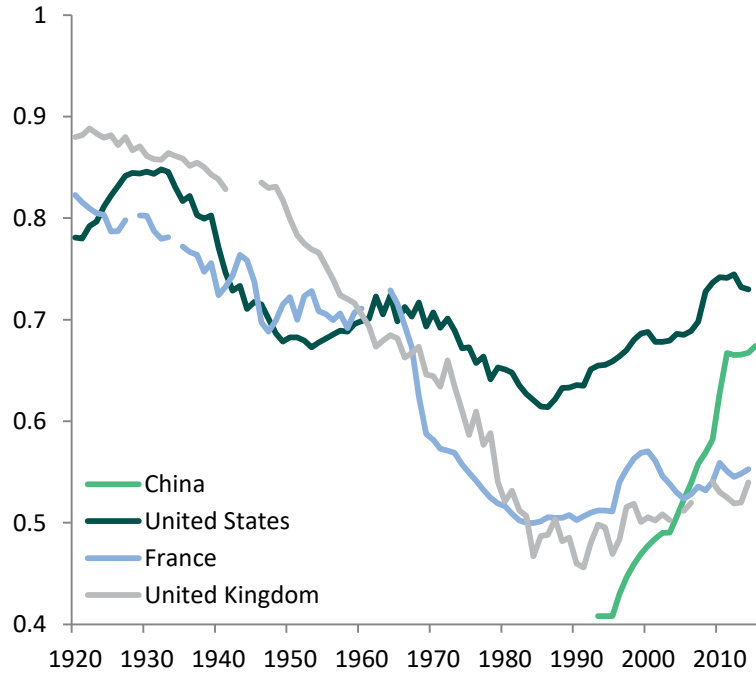


3) Temporary and part-time contracts

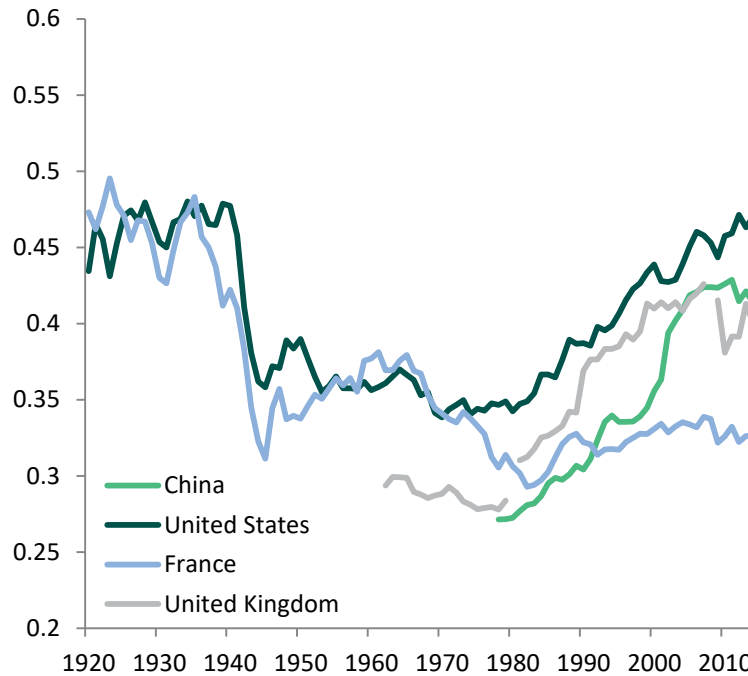


Rising inequality in important economic blocks

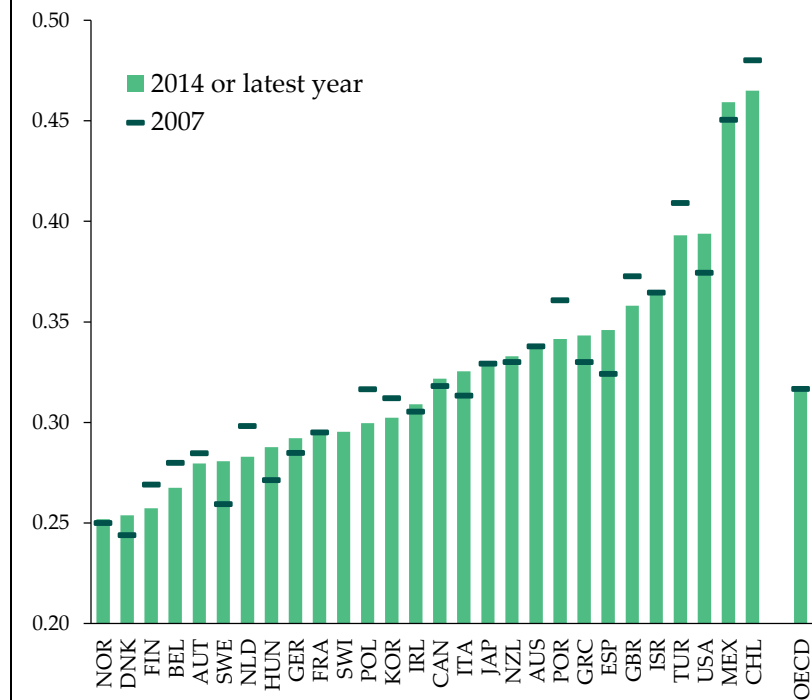
1) Net personal wealth (top 10% share)



2) Share of income going to top 10%



3) Gini coefficient, OECD



Source: Wealth and Income database, OECD, Degroof Petercam

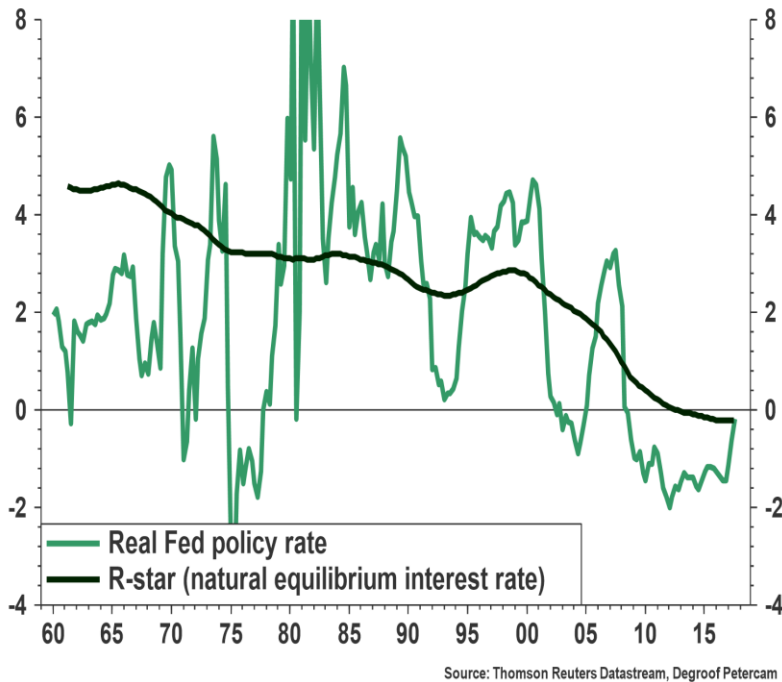


Central banks
turning more
hawkish

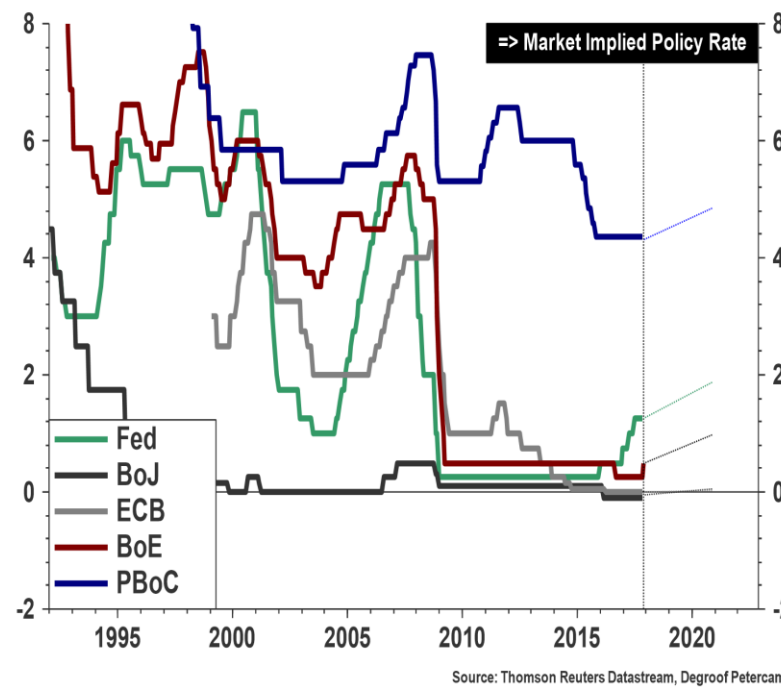


Central banks cautiously reducing stimulus

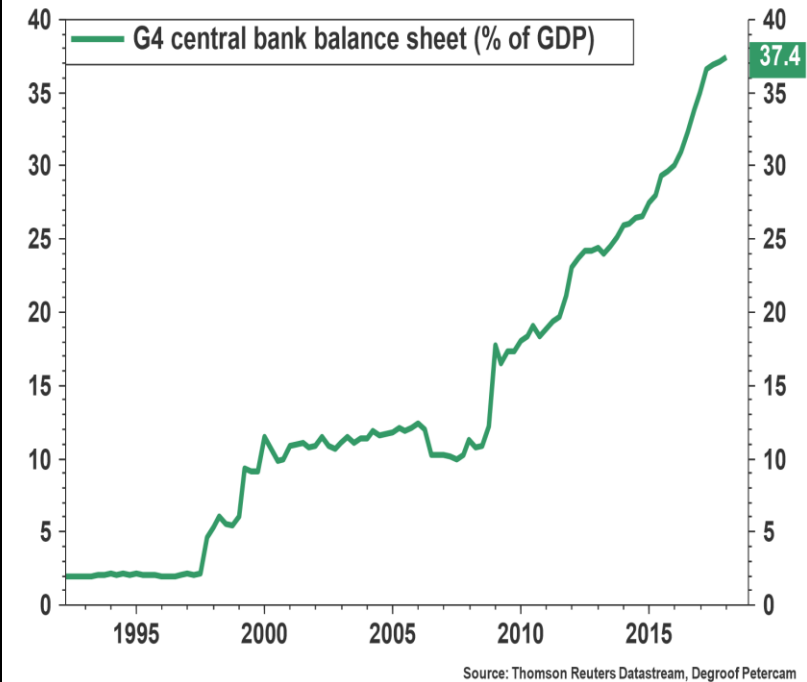
1) Equilibrium interest rates close to 0%



2) Very gradual tightening process

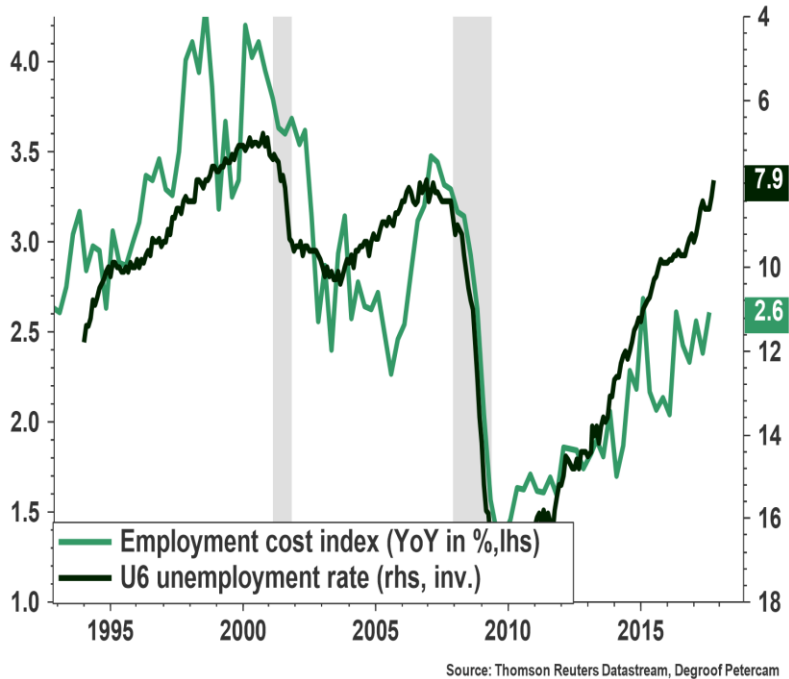


3) Large CB balance sheets are the new norm

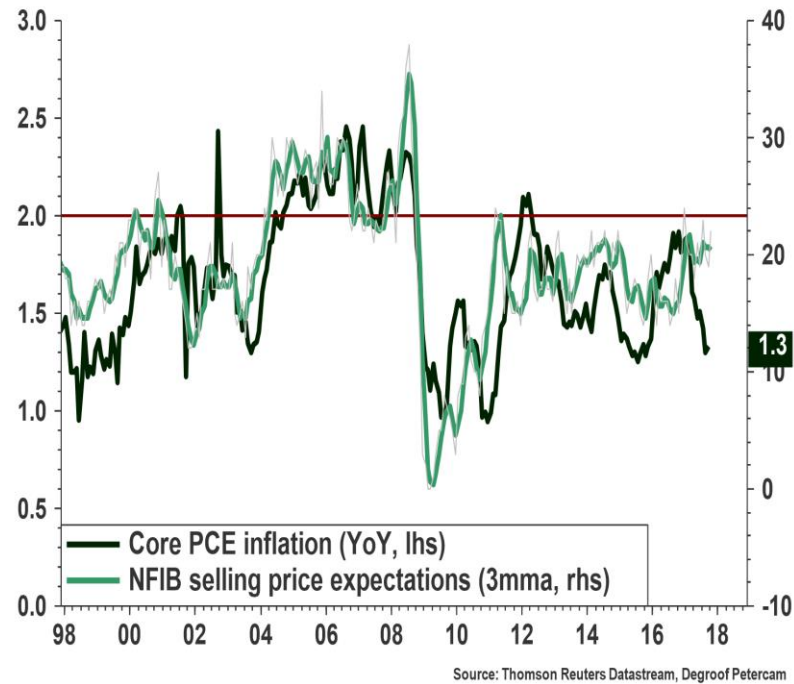


Fed looks set to gradually increase rates further

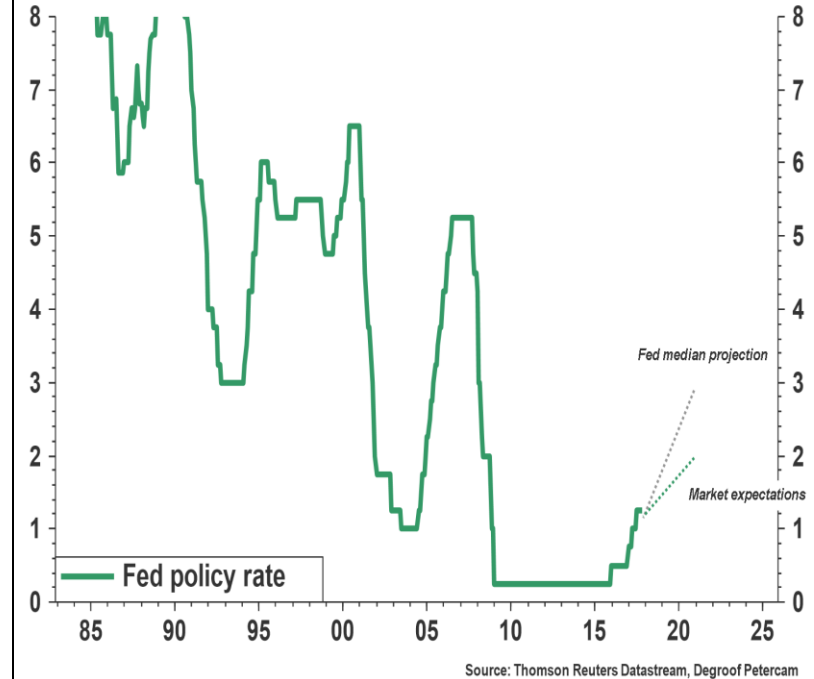
1) More wage pressure in the pipeline



2) Inflation held down by temporary factors

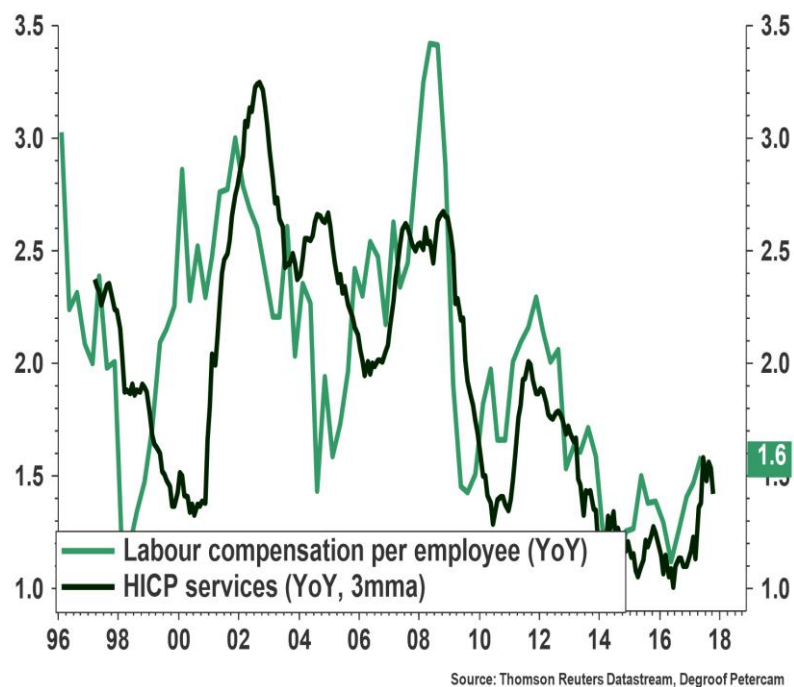


3) Fed to lower dots

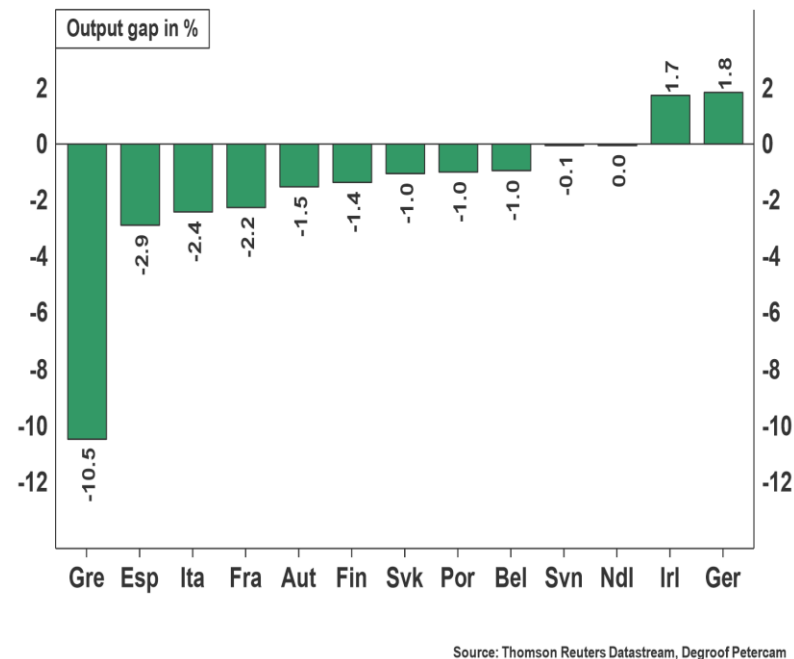


Why the ECB remains in loosening mode in 2018

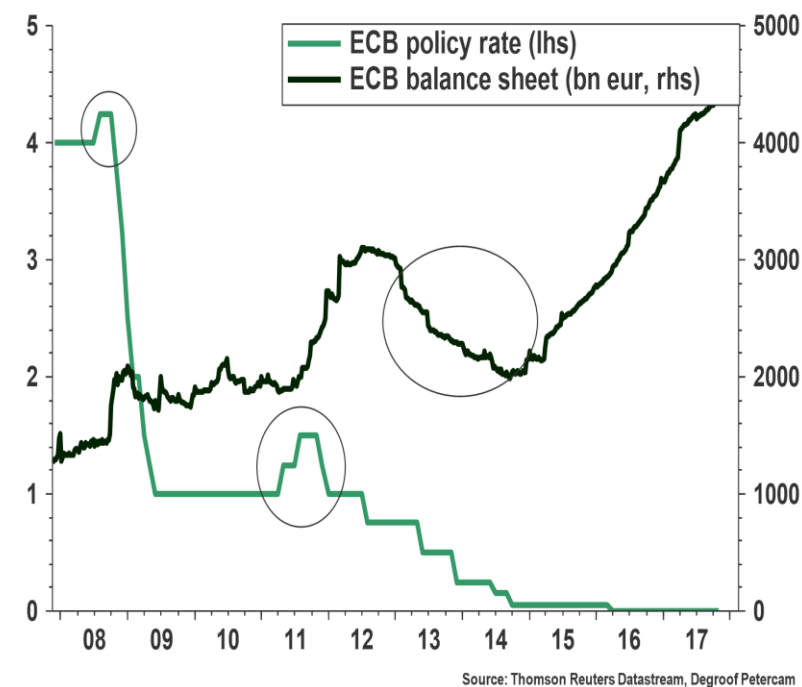
1) Wage growth still subdued



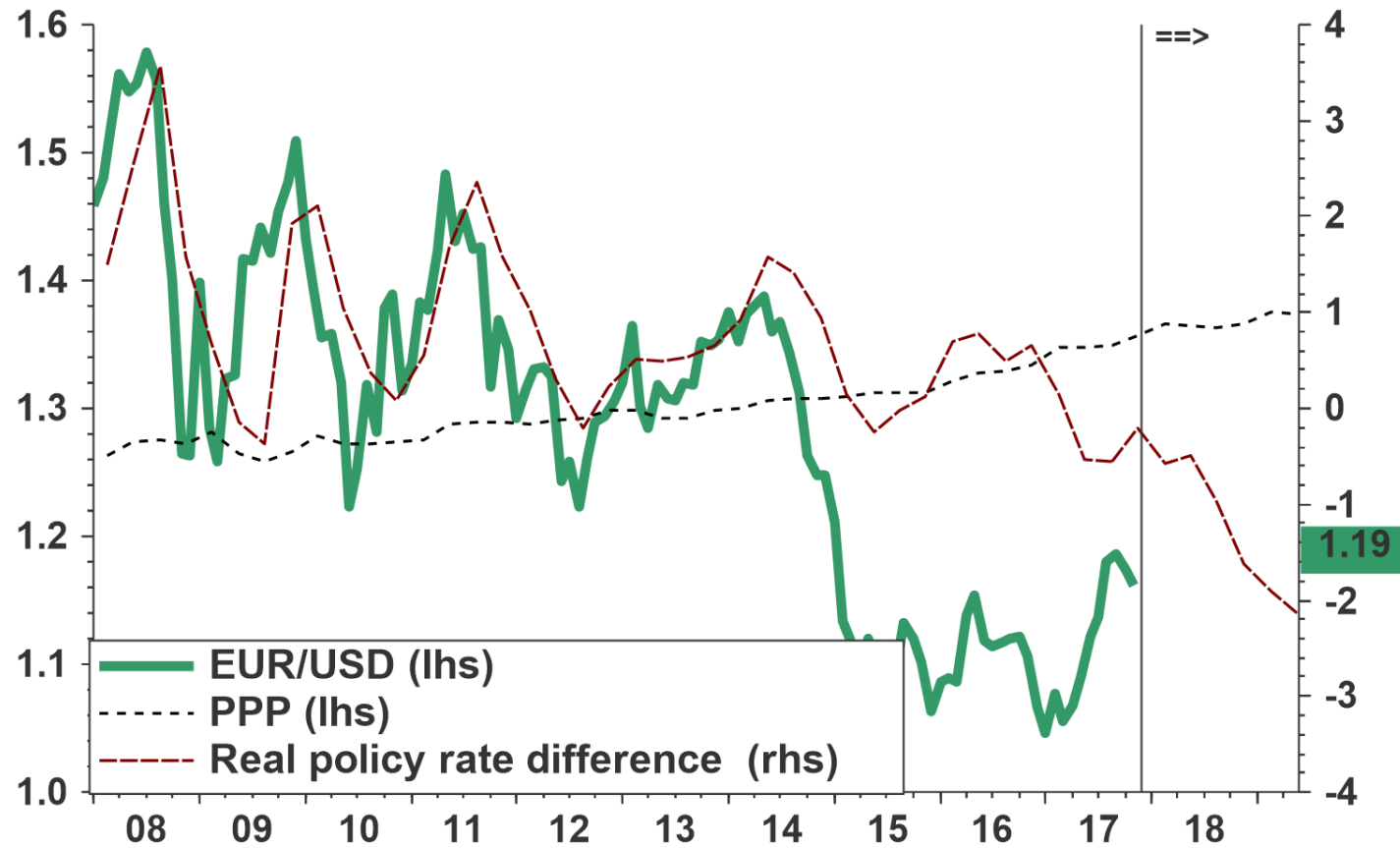
2) Economic differences between countries



3) Another policy mistake would be painful



Risks for the USD skewed to the downside in LT-perspective



Source: Thomson Reuters Datastream, Degroof Petercam

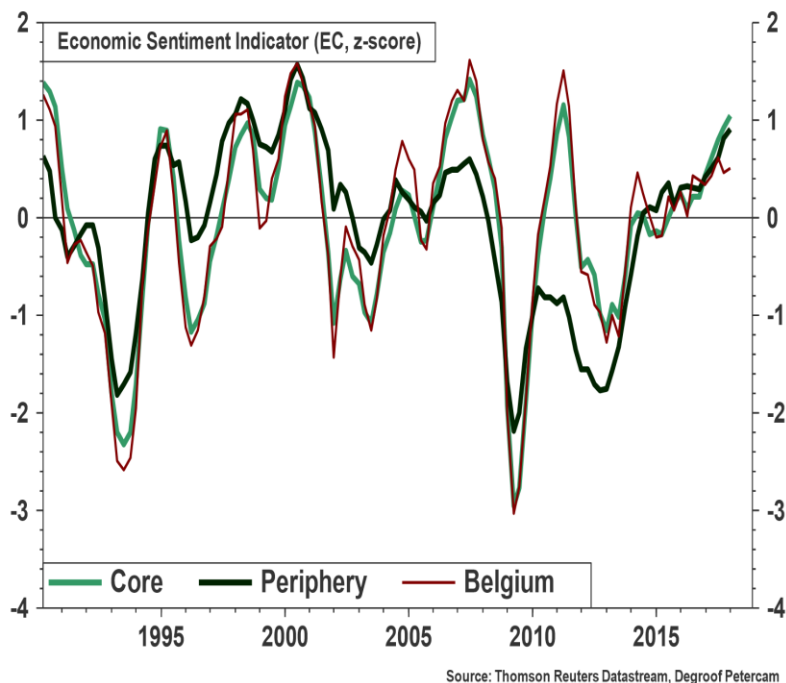


4 Sustainable Eurozone boom?

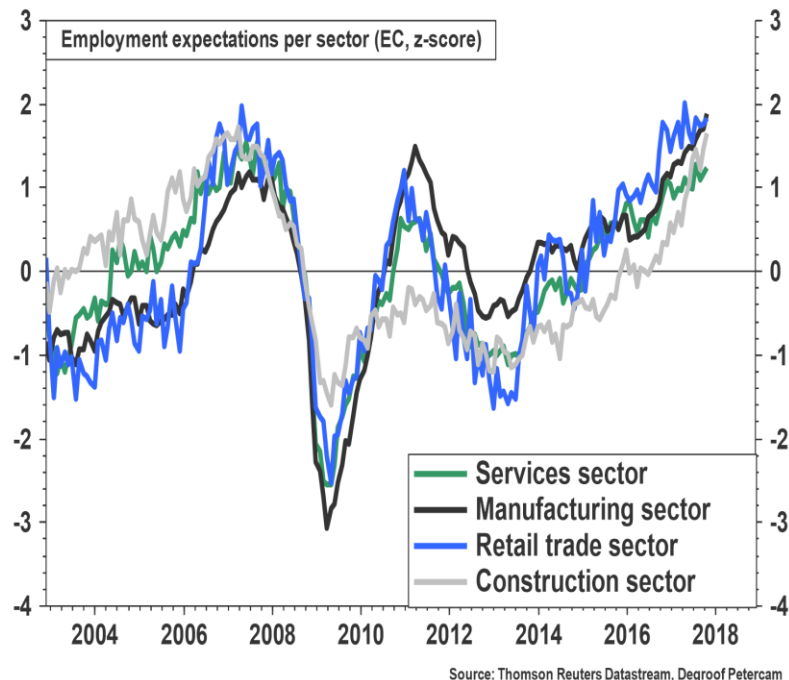


Eurozone recovery becoming more self-sustaining

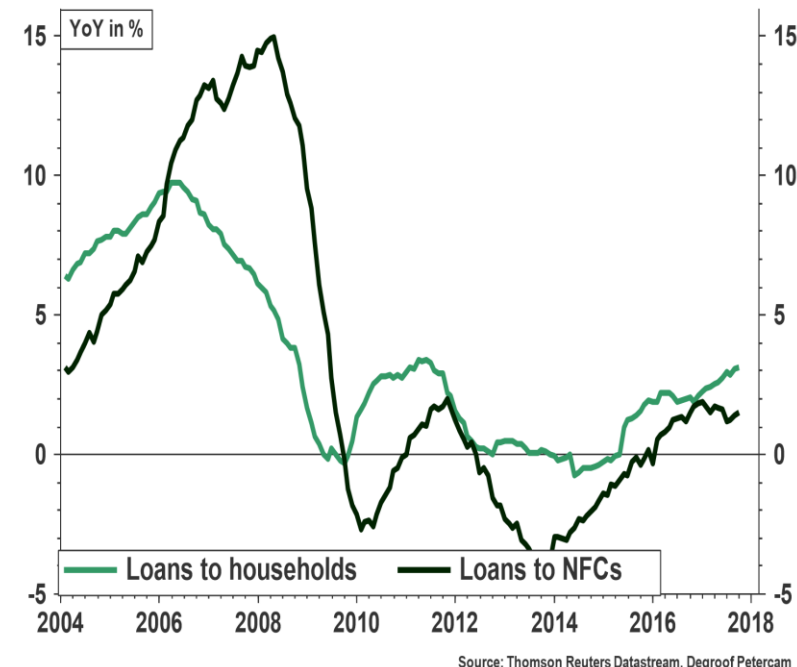
1) Periphery back in business



2) Continuing job growth across sectors

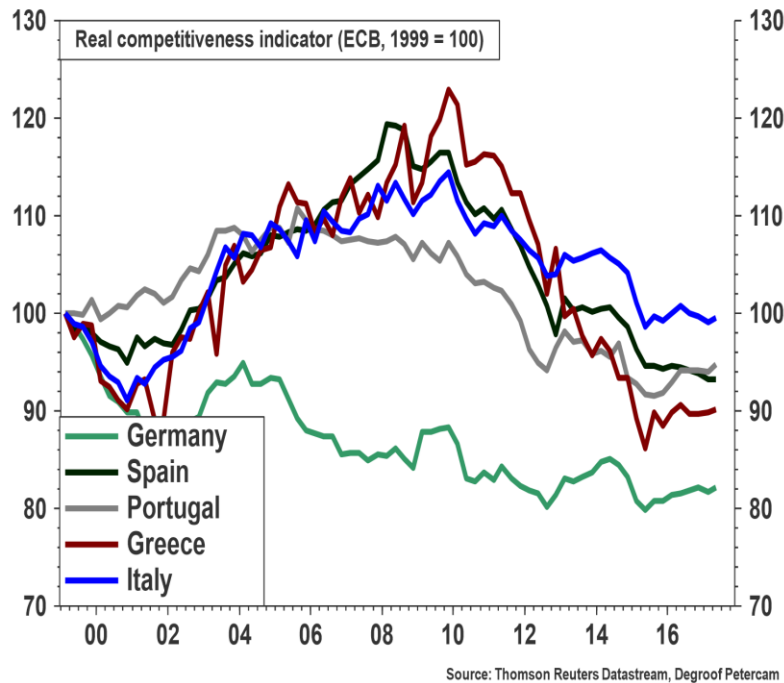


3) Credit mechanism functioning again

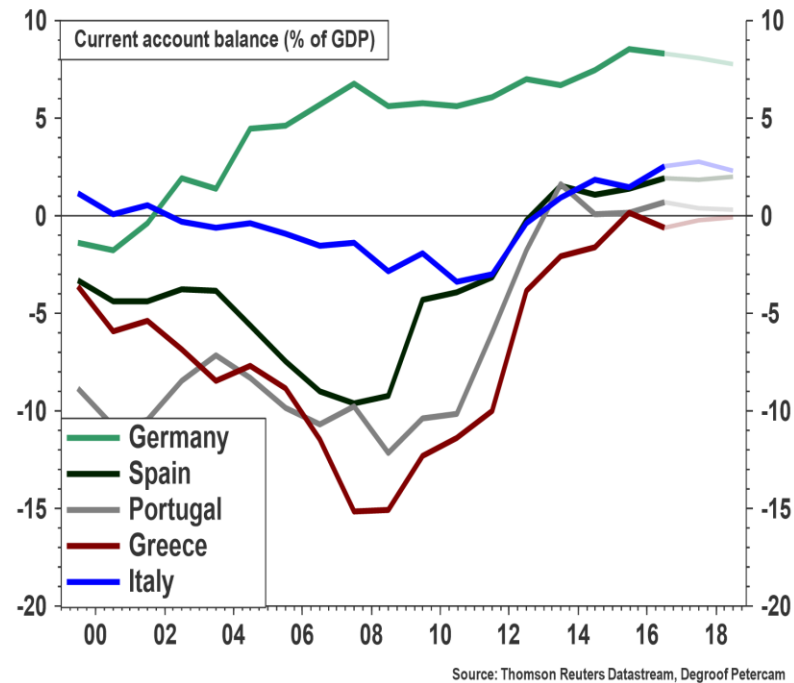


Imbalances have declined significantly...

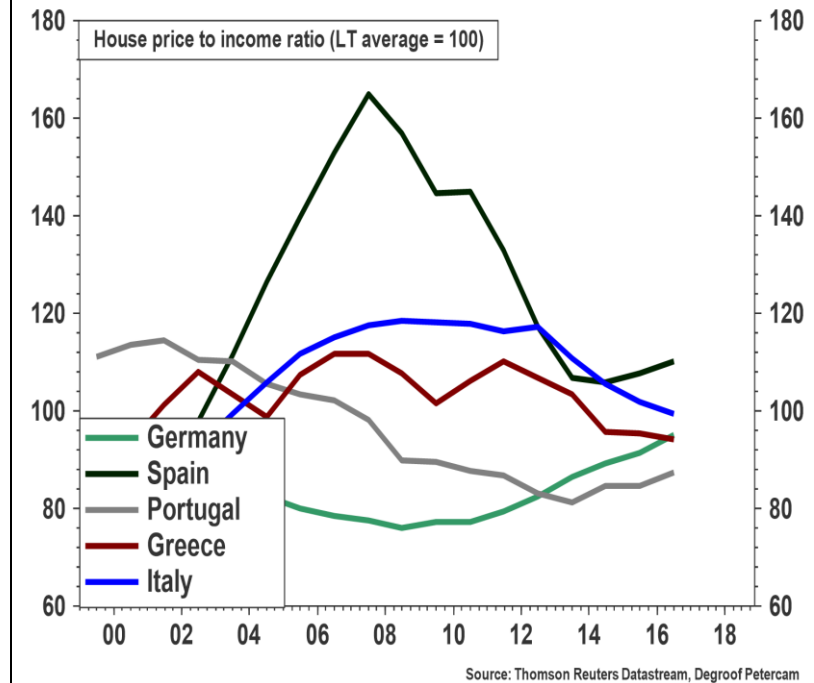
1) Competitiveness



2) Current account

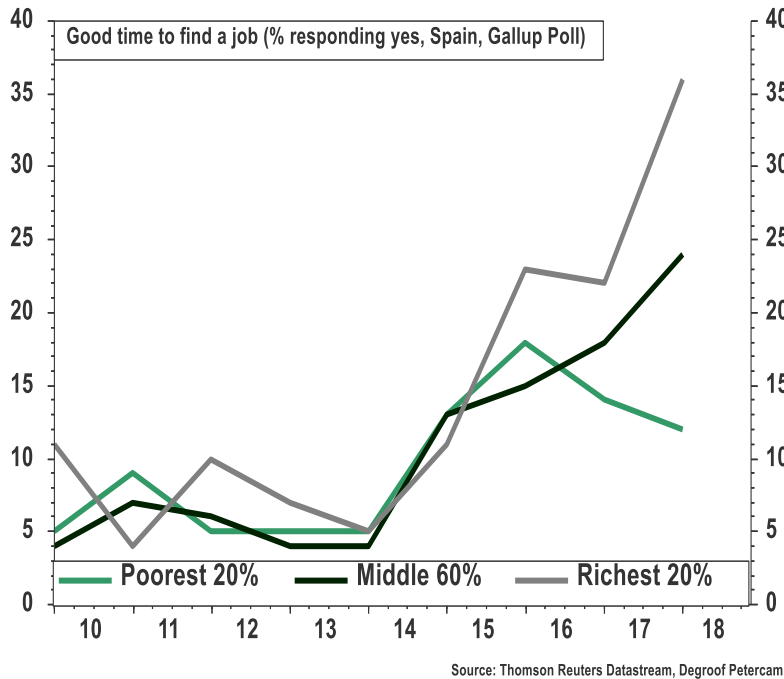


3) House prices

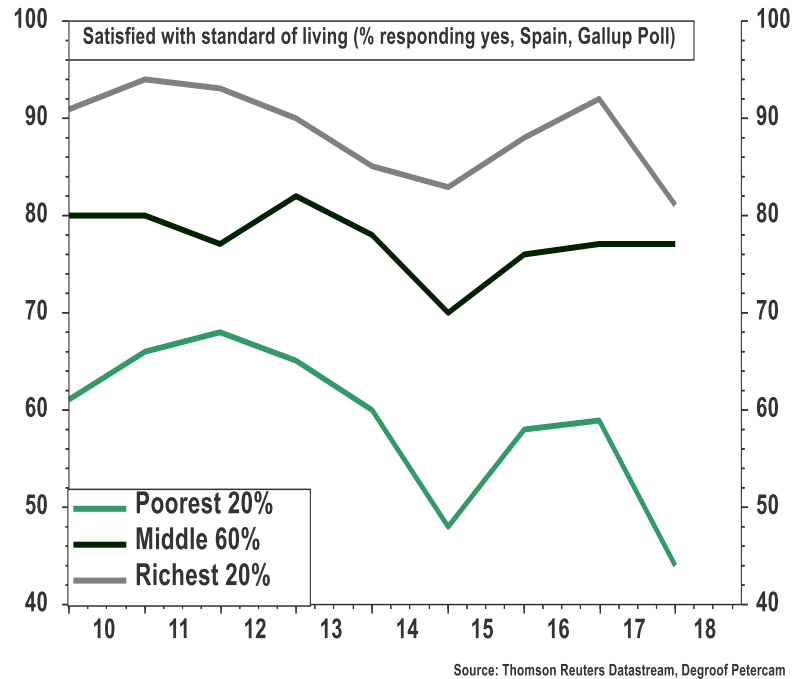


But there's more than meets the eye

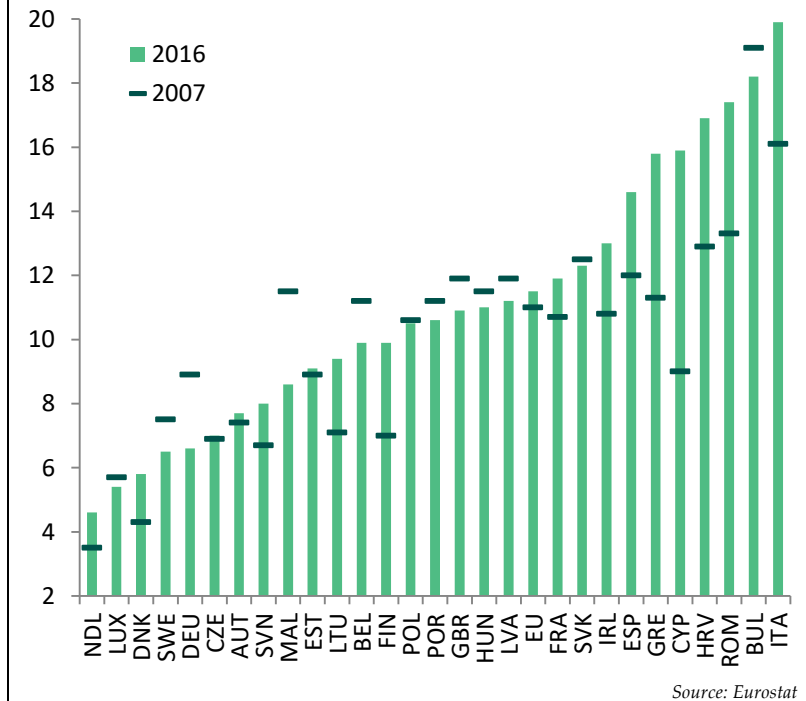
1) Poorest struggle to find a job



2) Divergence in satisfaction about living conditions

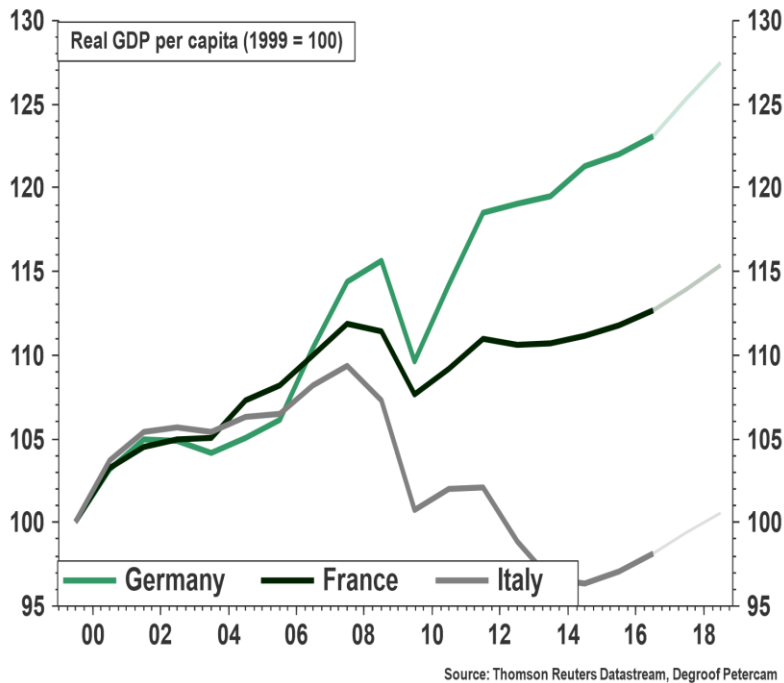


Not in employment, education or training (Young people, 15-24)

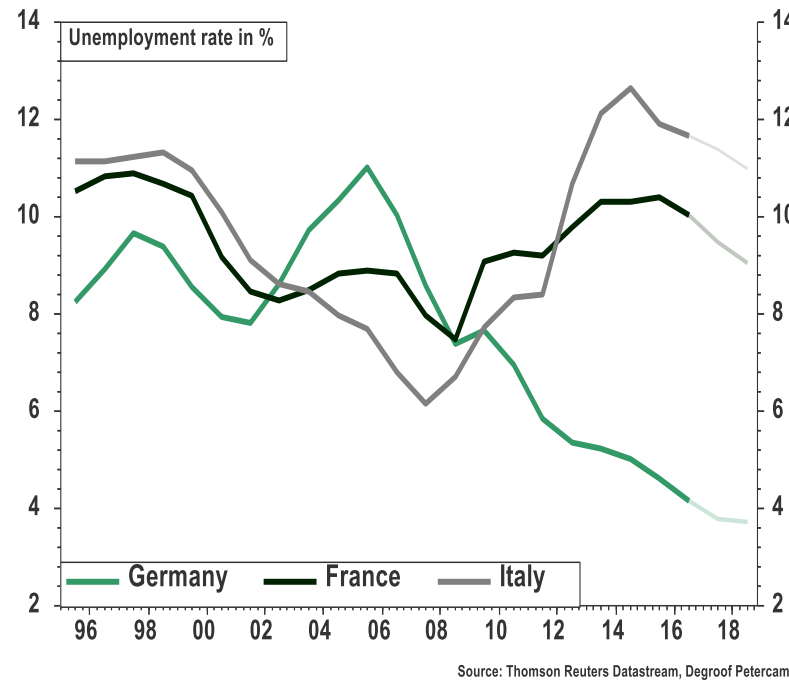


Divergence at the heart of the currency union remains in place

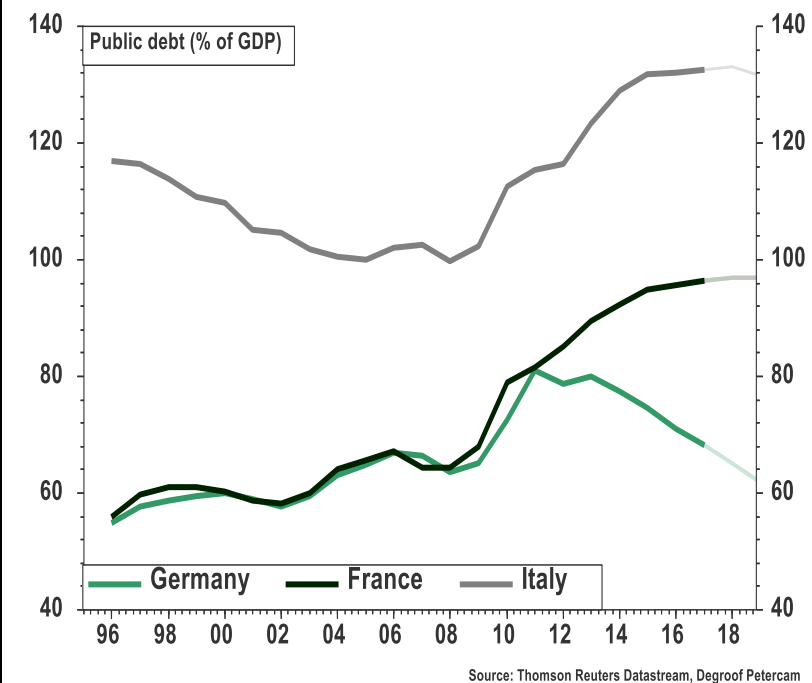
1) Living standards



2) Unemployment

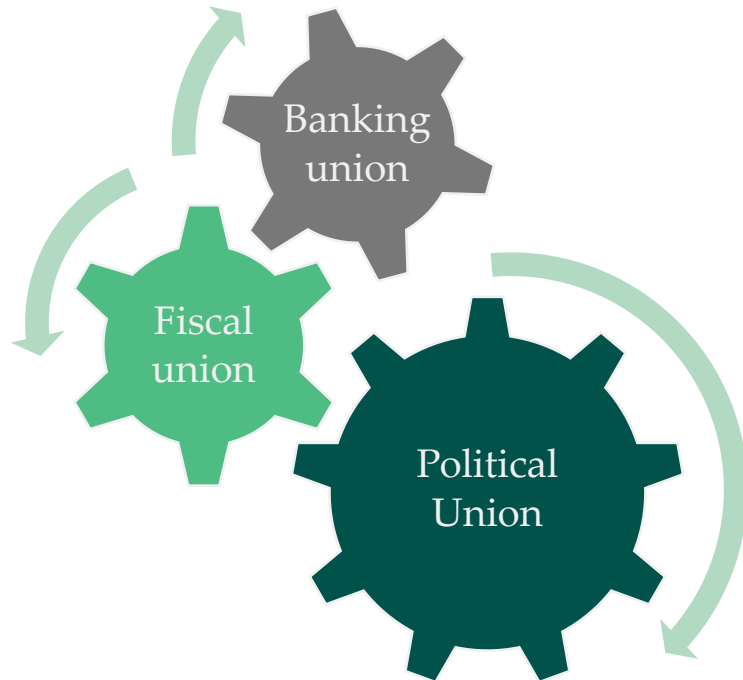


3) Public debt



Some institutional progress

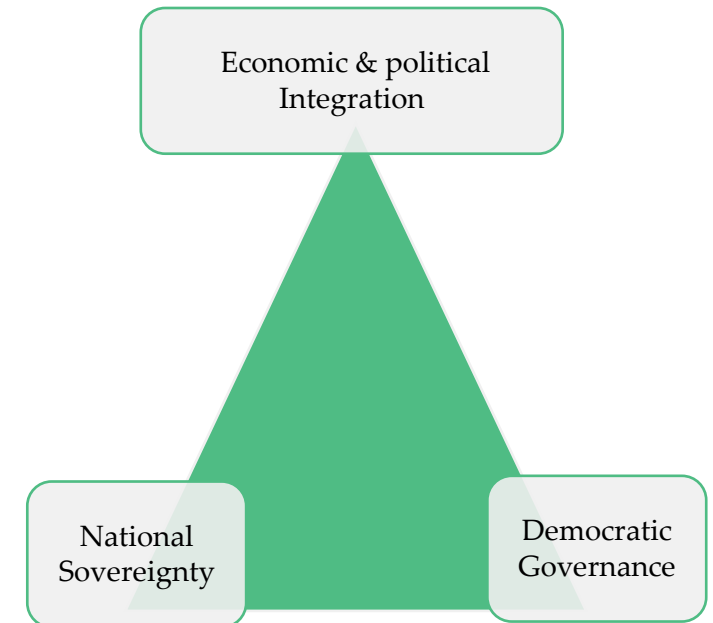
1) Pillars of a well functioning monetary union



2) Progress on various levels

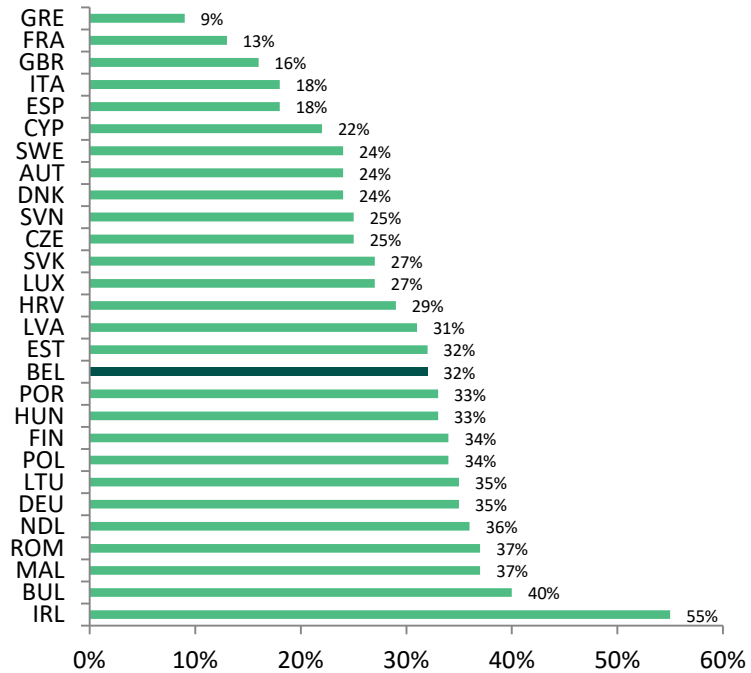
- ✓ More powerful and persuasive ECB
 - ✓ Bail-out plans (EFSM, ESM)
 - ✓ ECB banking supervision
 - ✓ Single Resolution Mechanism (but...)
 - ✓ More economic policy coordination
- *No agreement on EDIS*
 - *European Monetary Fund ?*
 - *Debt mutualization?*
 - *European minister of finance?*

3) Facing a trilemma

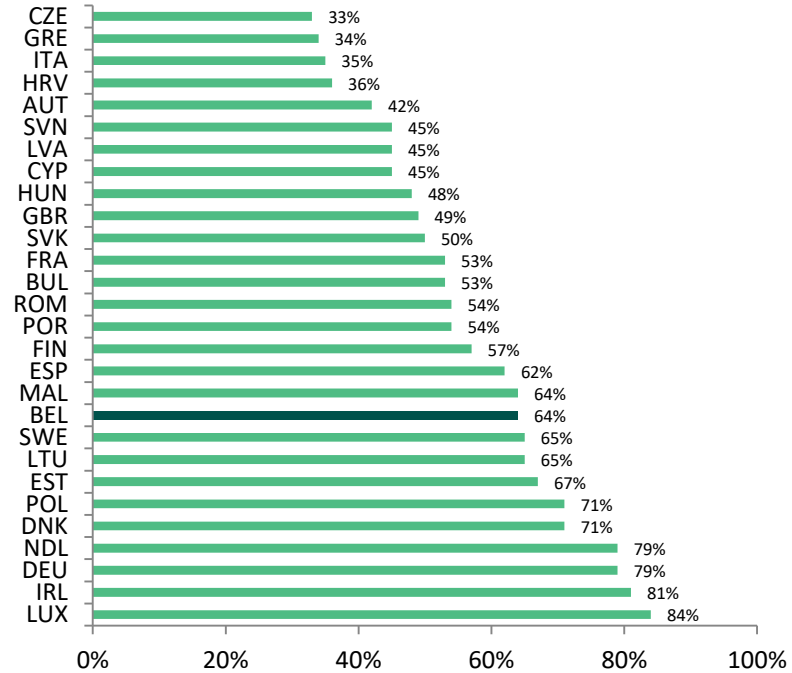


Quo vadis Europe?

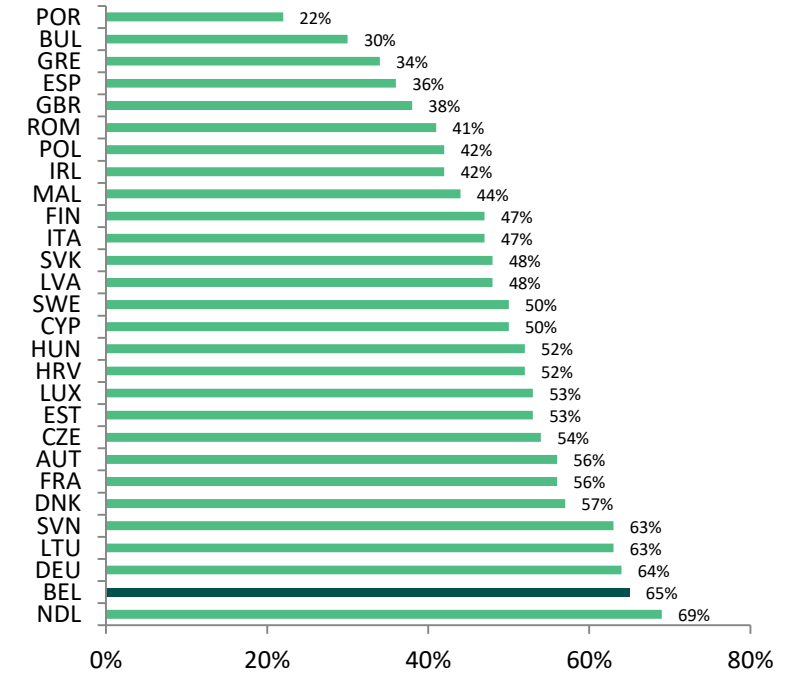
1) Are things in the EU moving in the right direction?
(share of people responding yes)



2) Is EU membership a good thing?
(share of people responding yes)



3) In favour of a multi-speed Europe?
(share of people responding yes)



Source: EU barometer 2017, Degroof Petercam



The Good, the Bad and the Ugly

1) Further integration



The Good

2) Break-up of the monetary union



The Bad

3) Status quo muddling through



The Ugly

5
Risks on the
horizon



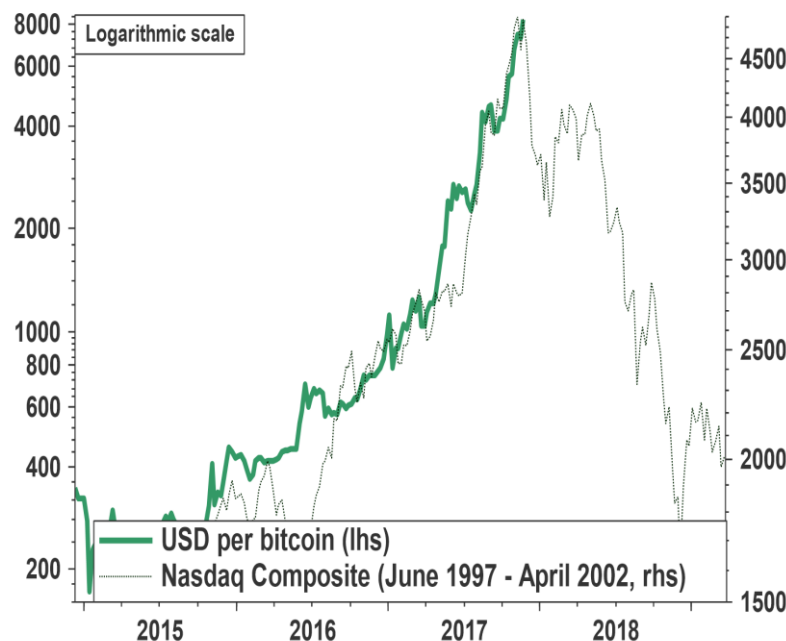
Potential crisis triggers



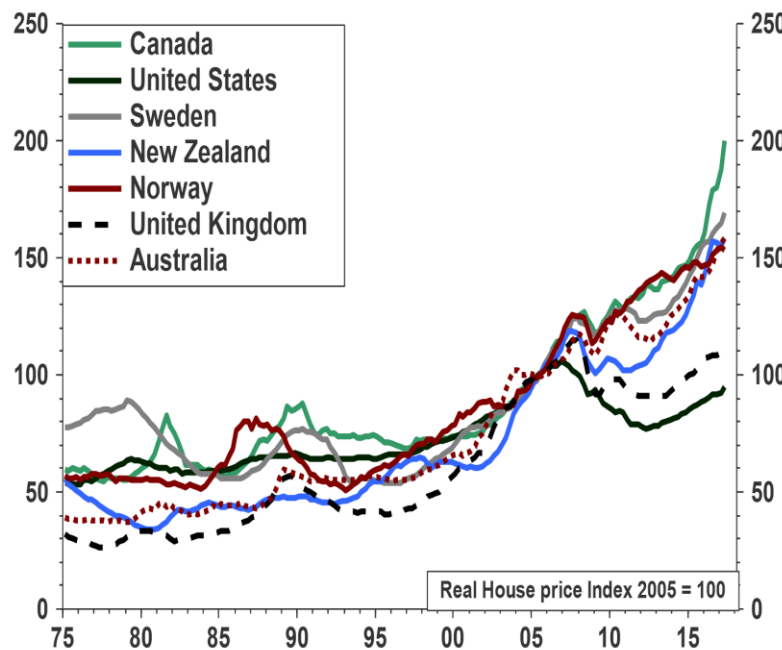
- ✓ Unwinding of policy measures
- ✓ Stretched valuations
- ✓ Inflation shooting up
- ✓ Geopolitical risks (N. Korea, Nafta, Brexit,...)
- ✓ Rising protectionism
- ✓ Renewed unrest linked to Italy
- ✓ China downturn

Sustained low rates increase the risk of financial imbalances

1) Bitcoin bubble ?



2) Housing market valuations rising fast

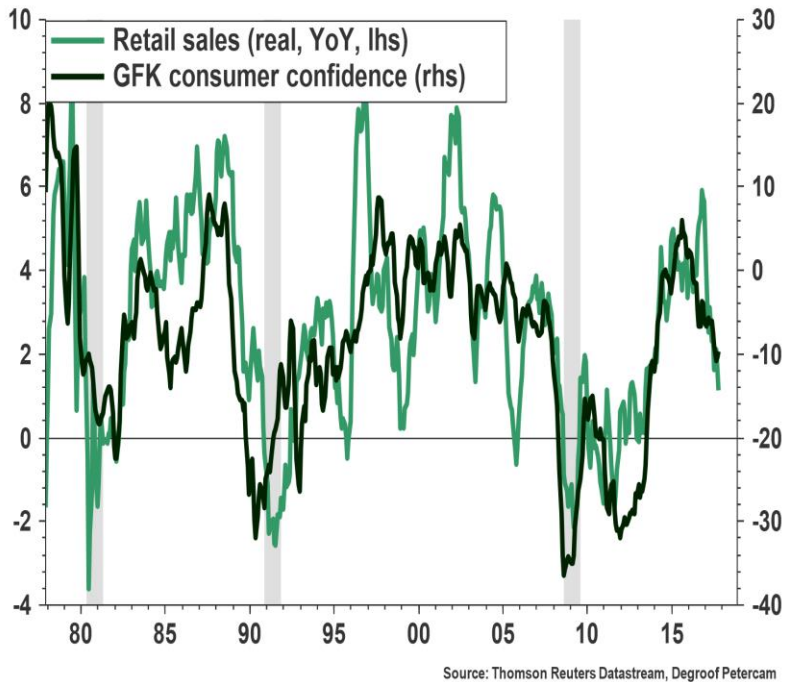


3) Equity markets increasingly expensive

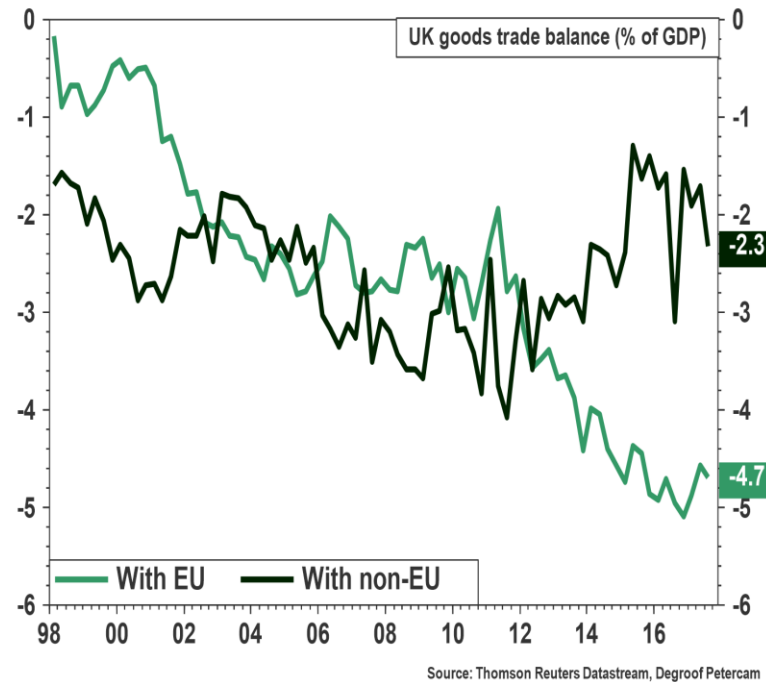


Better to avoid a hard Brexit

1) Weaker consumption



2) EU has the stronger hand



3) Estimated output and job loss

Estimated output loss (% of GNP)

	Soft	Hard*
Belgium	0.58	2.35
EU27	0.38	1.54
UK	1.21	4.47

Estimated job loss (in '000s)

	Soft	Hard*
Belgium	10	42
EU27	284	1200
UK	140	526

* **Soft** assumes 0% tariffs and 2,77% NTBs, **Hard** assumes MFN tariffs and 8,31% NTBs
 Source: Vandebussche, H., Connell, W. and Simons, W. (2017), Degroof Petercam

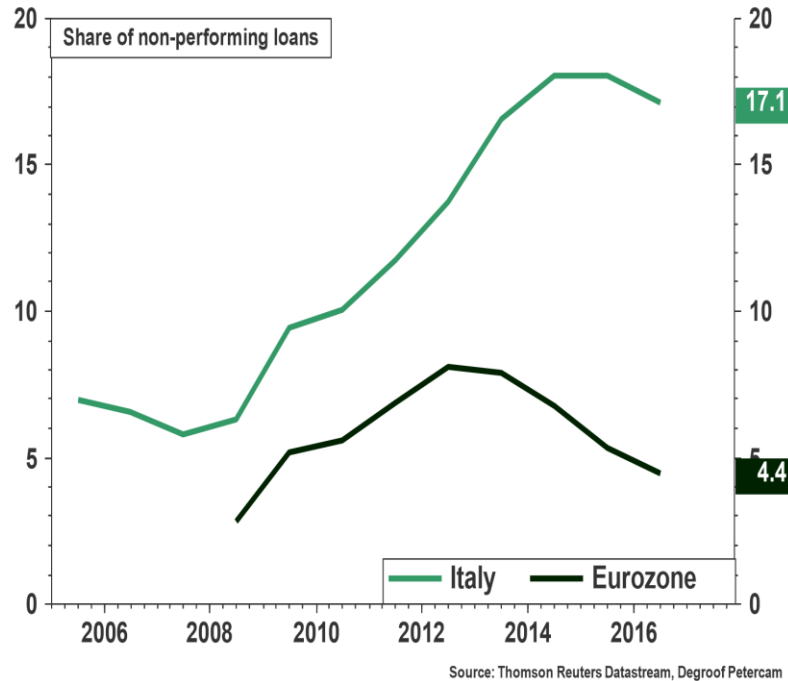


Italian recovery but concerns look set to remain in place

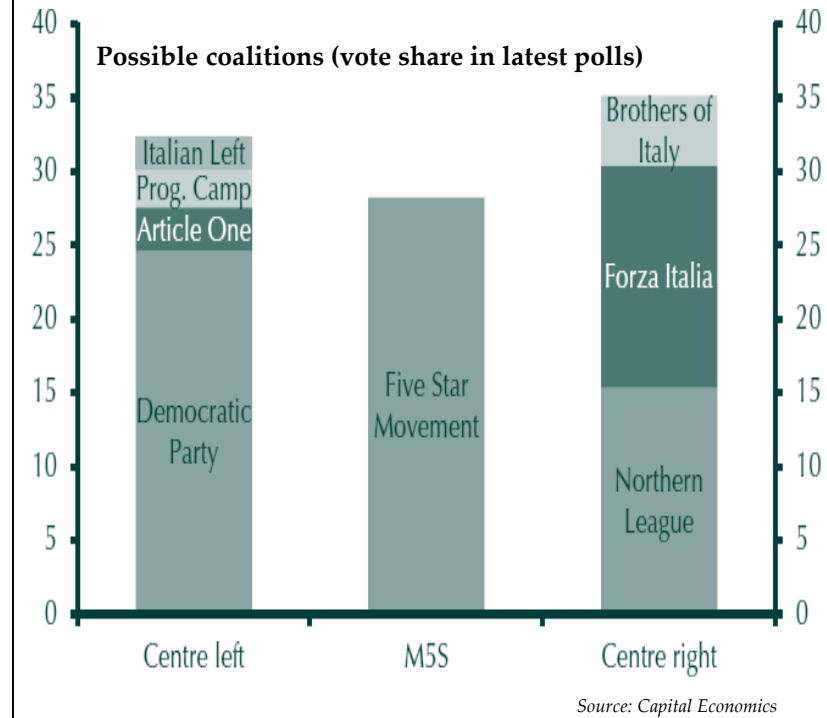
1) Long-term productivity and debt concerns



2) Weakened financial sector

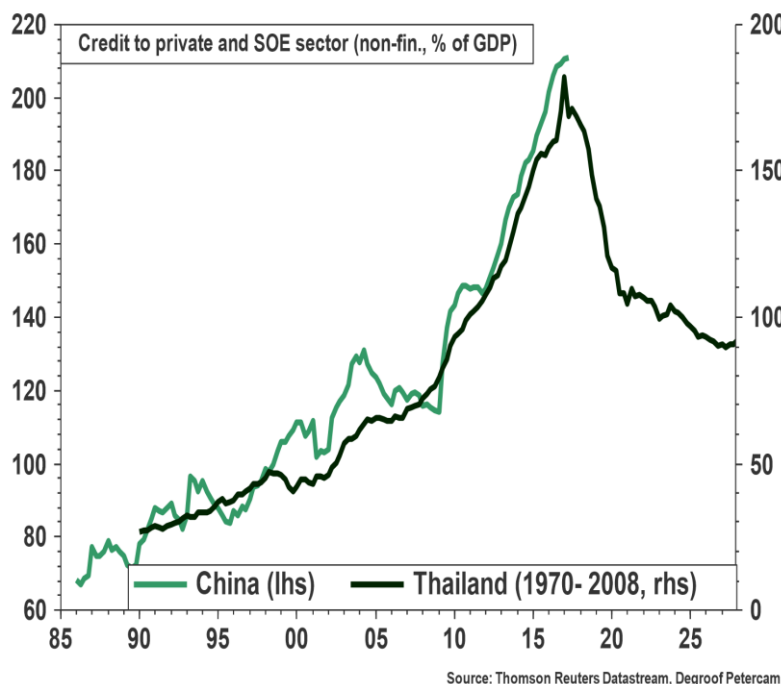


3) Difficult coalition formation

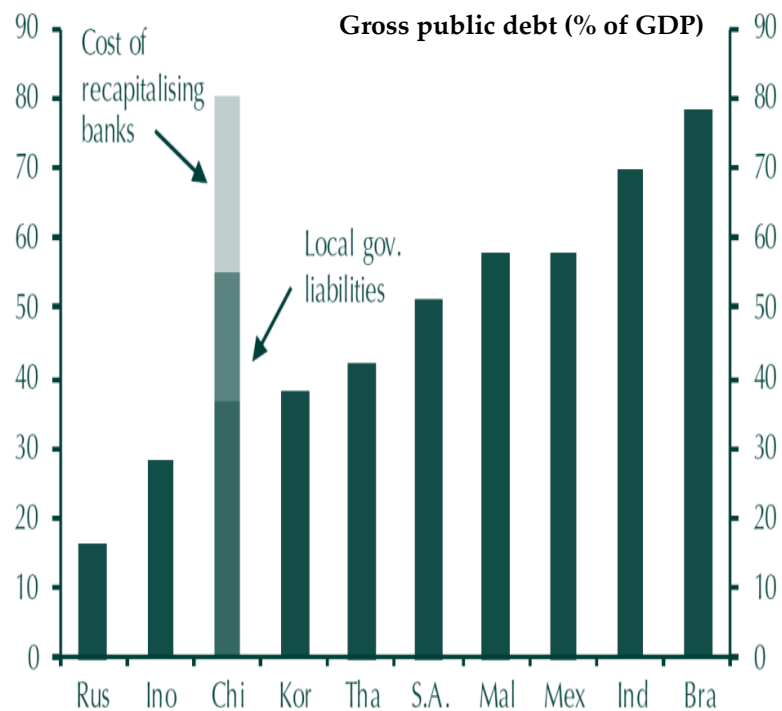


China still a key risk

1) Credit bubble



2) Public debt already high



Source: Capital Economics

2) Why China can avert a typical EM crisis

- ✓ Savings > Investment
- ✓ Large amount of FX reserves
- ✓ Capital controls in place
- ✓ Top-down economic policy orientation
- ✓ Stop-and-go policy



6 Conclusion



Cyclical upturn remains fairly strong going into 2018

1) Growth holding up firmly

- ✓ Confidence indicators remain strong
- ✓ Economic growth above potential
- ✓ Fiscal stance broadly neutral
- ✓ Financial conditions remaining loose
- ✓ Nearing the end of the expansion

2) Central bankers turning more hawkish

- ✓ Inflation set to pick up gradually
- ✓ Fed to hike rates 2-3 times in 2018
- ✓ ECB to continue AP until Sept '18
- ✓ BoJ in patient wait-and-see mode
- ✓ PBoC holding on to tighter stance

3) Risks on the horizon

- ✓ Market psychology ~ asset prices
- ✓ P* shooting up or CB policy mistake
- ✓ China slowdown creating upheaval
- ✓ Soft Brexit time is running out
- ✓ Renewed unrest linked to Italy

Outlook

<i>Economic activity</i>			
<i>GDP (YoY in %)</i>	2017	2018	2019
<u>US</u>	2.2	2.4	1.6
<u>Eurozone</u>	2.3	2.1	1.6
<u>Japan</u>	1.5	1.2	1.2
<u>UK</u>	1.5	1.4	1.1
<u>China</u>	6.7	6.2	5.7

<i>Inflation</i>			
<i>CPI (YoY in %)</i>	2017	2018	2019
<u>US</u>	2.0	2.2	2.2
<u>Eurozone</u>	1.6	1.4	1.7
<u>Japan</u>	0.5	0.7	1.2
<u>UK</u>	2.7	2.3	1.9
<u>China</u>	1.6	2.2	2.3

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Investment Outlook 2018

Investment Strategy

Jérôme van der Bruggen – Head of Investments Private Banking Degroof Petercam

Stratégie

- Pondération neutre en actions avec une nette préférence pour l'Europe au détriment des actions américaines et des actions des pays émergents.
- Dans le portefeuille obligataire, une duration plus courte est appropriée.
- Des obligations d'entreprises 'Investment grade' en euro et les obligations mondiales liées à l'inflation sont à préconiser.
- Le dollar américain et l'or offrent une diversification au portefeuille obligataire classique européen.



Strategie – Blijf belegd in aandelen, ondanks talrijke onzekerheden

Aandelen blijven een aantrekkelijke activaklasse. Lage rente maakt ze relatief aantrekkelijk en winstgroei herstelt.

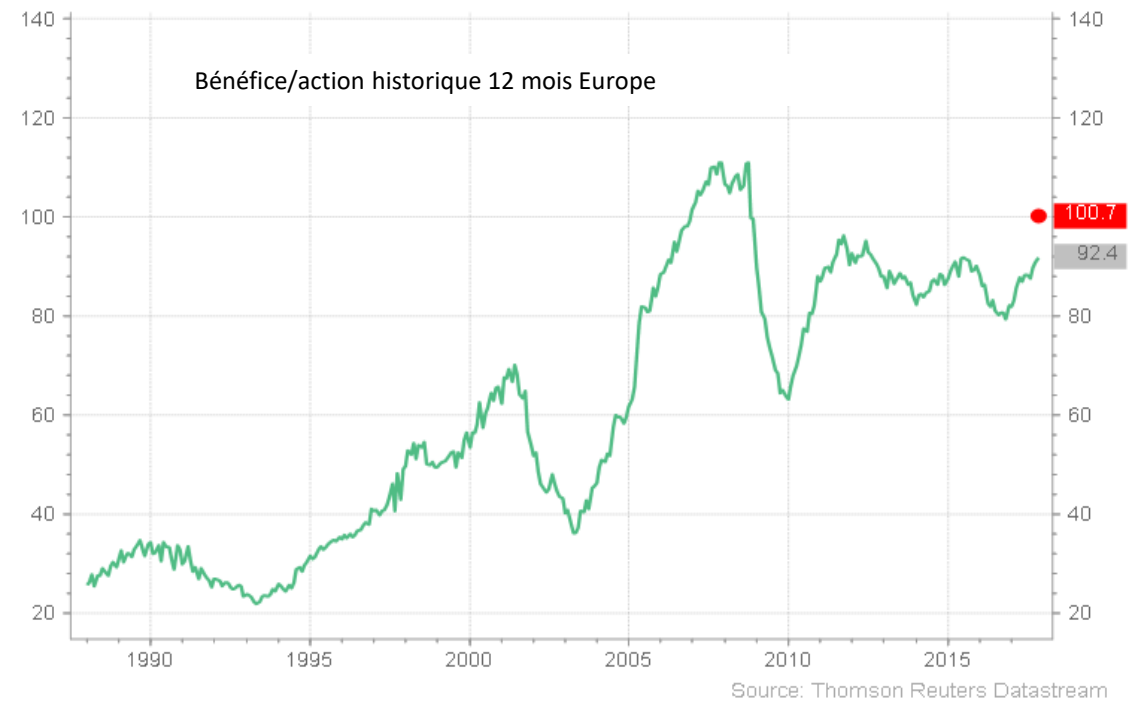
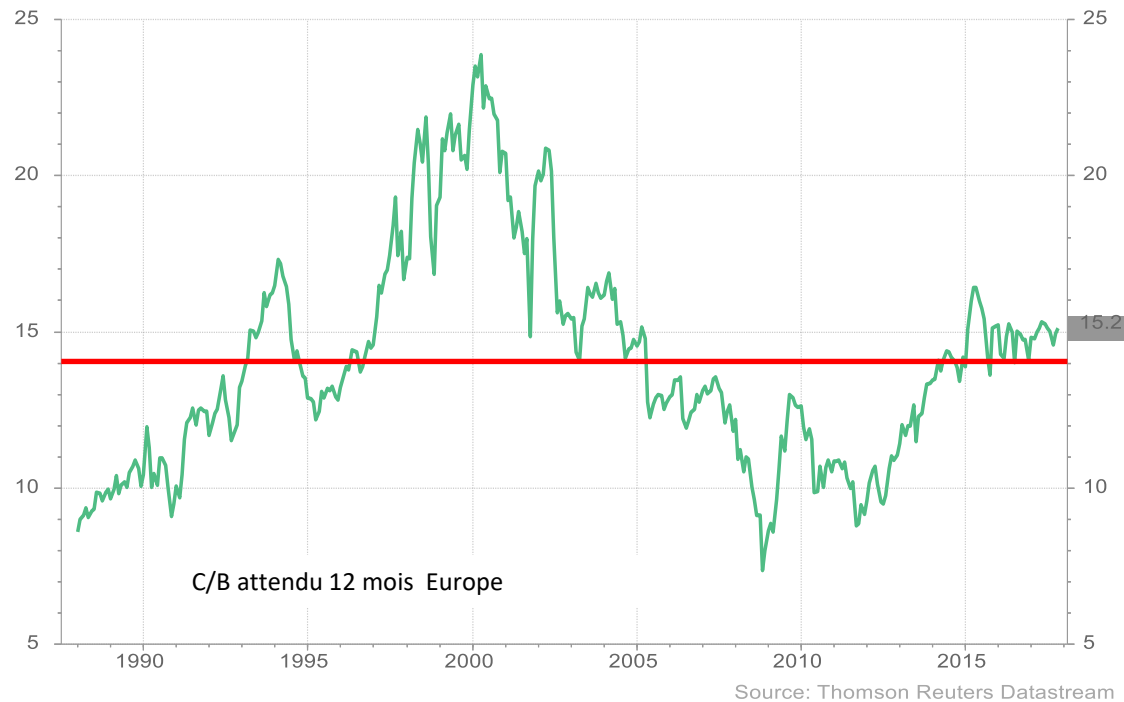
Verwachte Winstgroei	2017	2018
Eurozone	10,4%	9,1%
US	9,8%	12,2%
Japan	5,8%	8,3%
Emerging Markets	21,5%	12,3%

Neutrale weging voor aandelen



Valorisations - Europe

Les valorisations en Europe sont à 15,2x les bénéfices attendus, légèrement au-dessus de leur moyenne à long terme.

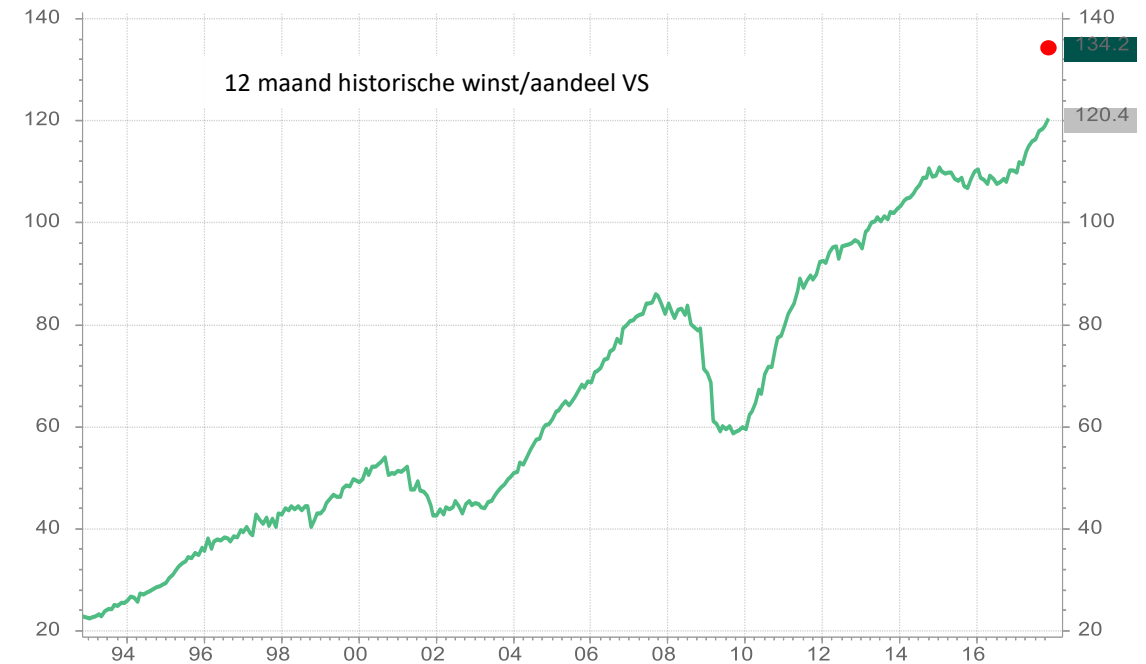
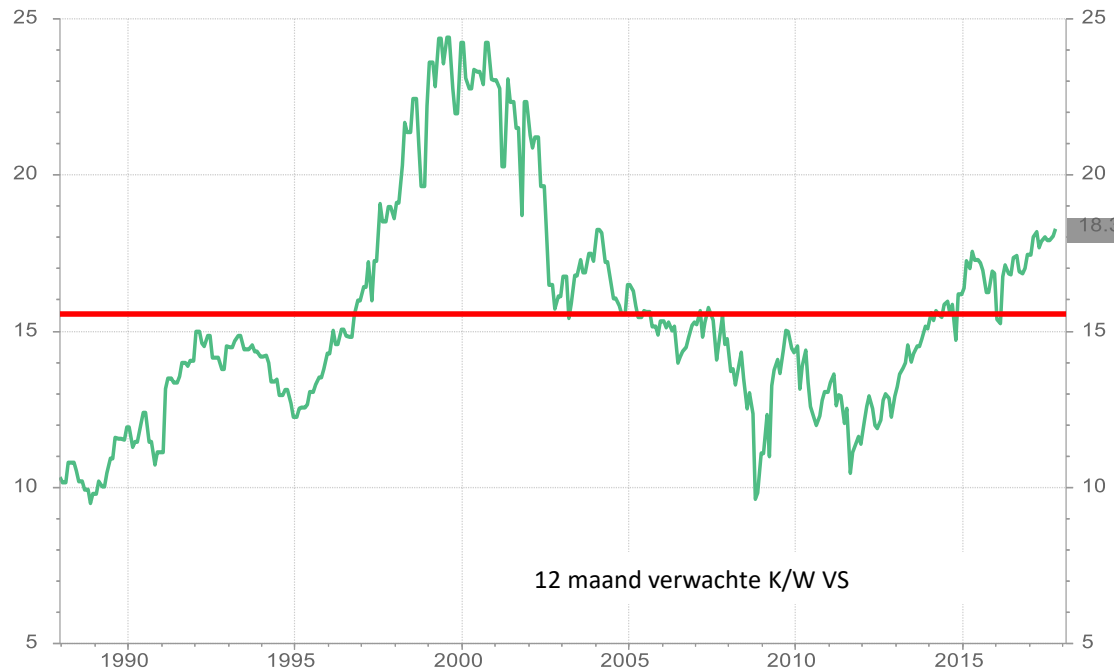


En raison d'un euro plus fort, les prévisions bénéficiaires ne sont plus revues à la hausse.



Waarderingen – Verenigde Staten

De waarderingen in de VS evolueren boven hun lange termijn gemiddelde op 18,3 en marges worden verwacht vanaf piekniveaus verder te stijgen.

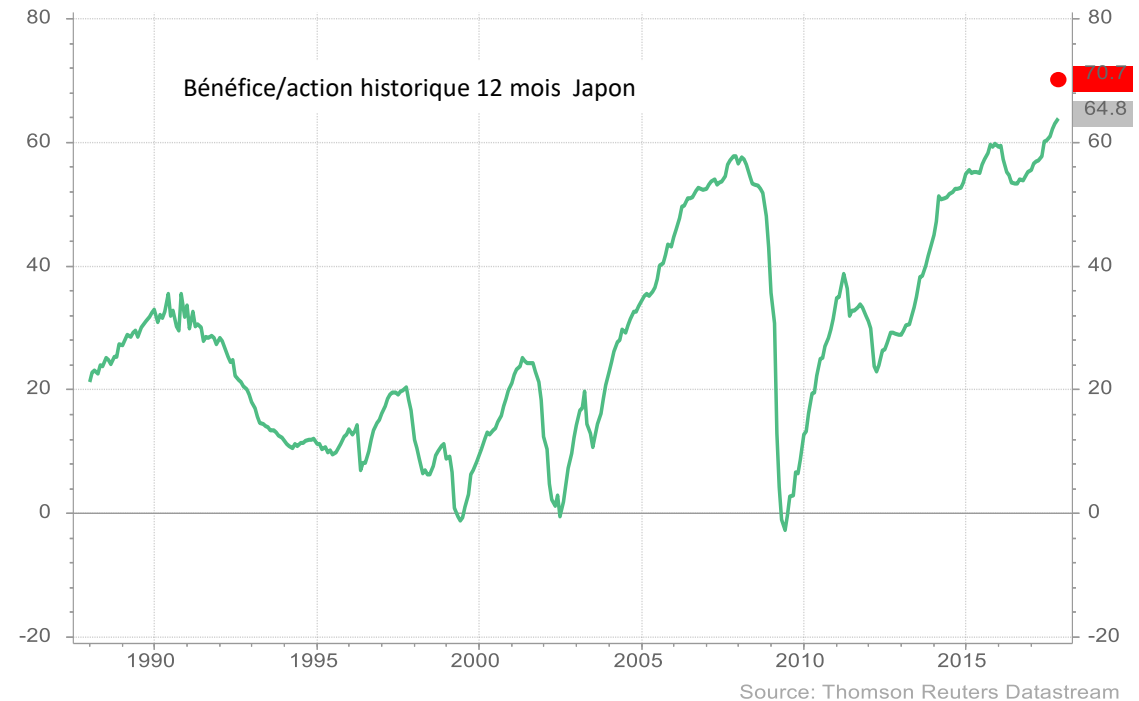
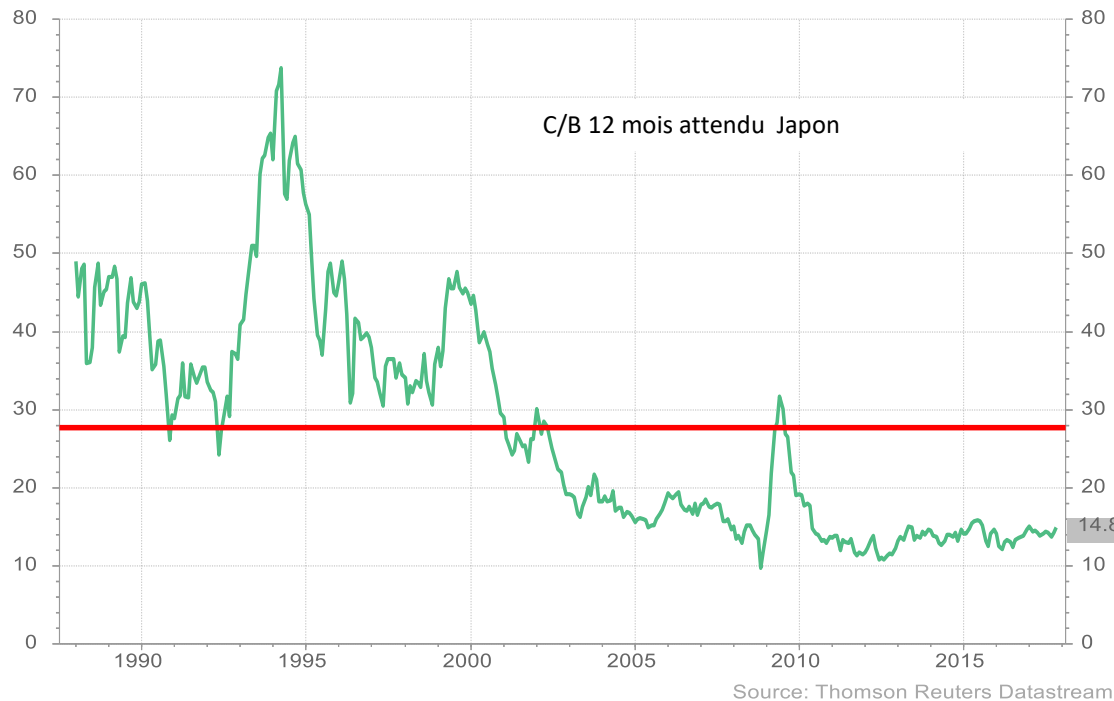


Terwijl de impact op de bedrijfswinsten van een fiscale hervorming onduidelijk blijft, zal de depreciatie van de USD verdere winstgroei ondersteunen.



Valorisations - Japon

Les actions japonaises sont valorisées à 14,8x les bénéfices attendus, en dessous de la moyenne à long terme...

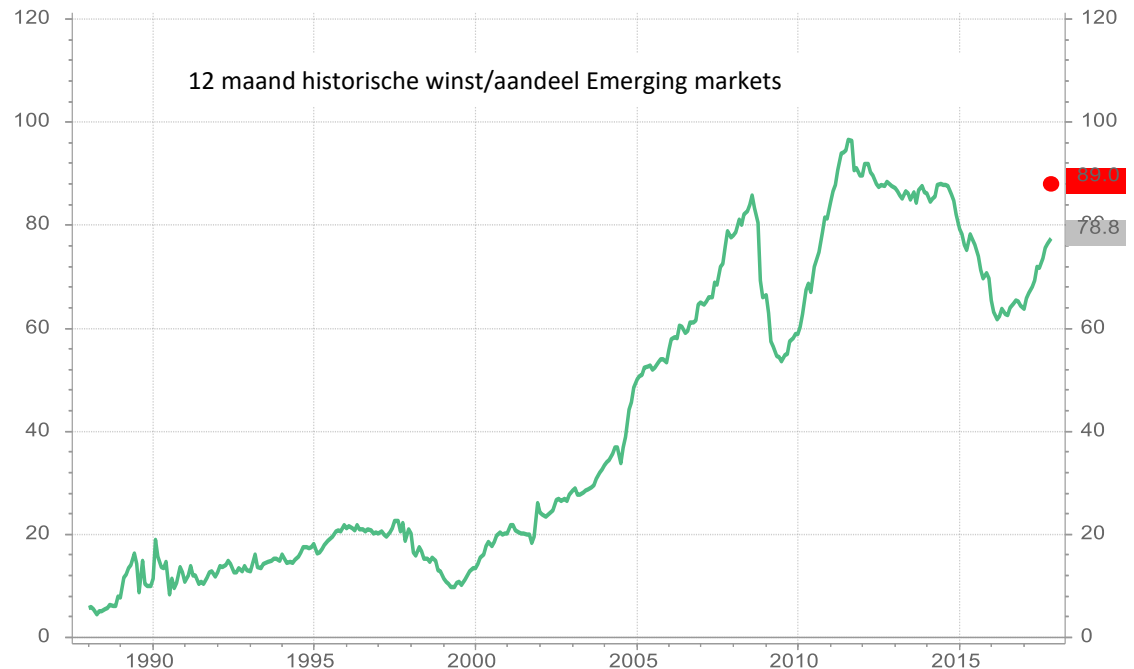
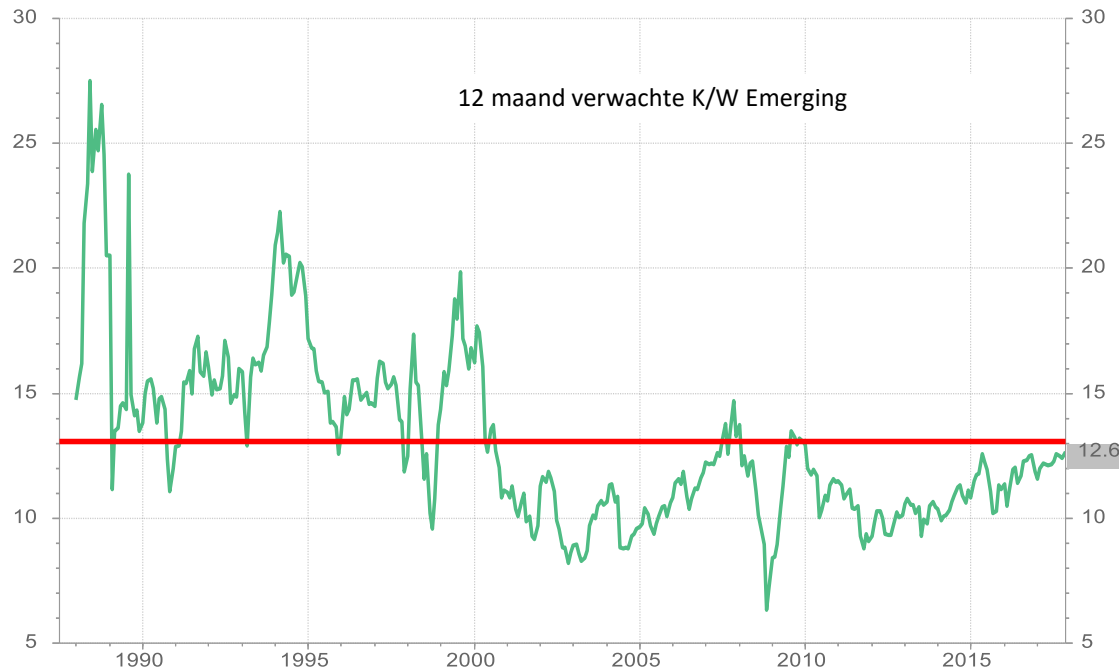


... et les prévisions bénéficiaires sont revues à la hausse, une évolution qui est sans doute due à la cyclicité élevée de l'économie plus qu'aux améliorations structurelles.



Waarderingen - Groeilanden

De waarderingen in de Emerging Markets bevinden zich op 12,6 onder hun lange termijn gemiddelde en zijn goedkoper dan die van de ontwikkelde landen.



Maar de risico's voor de regio zijn talrijk: een hogere USD, talrijke verkiezingen in 2018 (o.a. Mexico en Brazilië), China (kredietgroei, minder soepele monetaire politiek, herbalancering,...).



Stratégie – Préférence pour les actions européennes

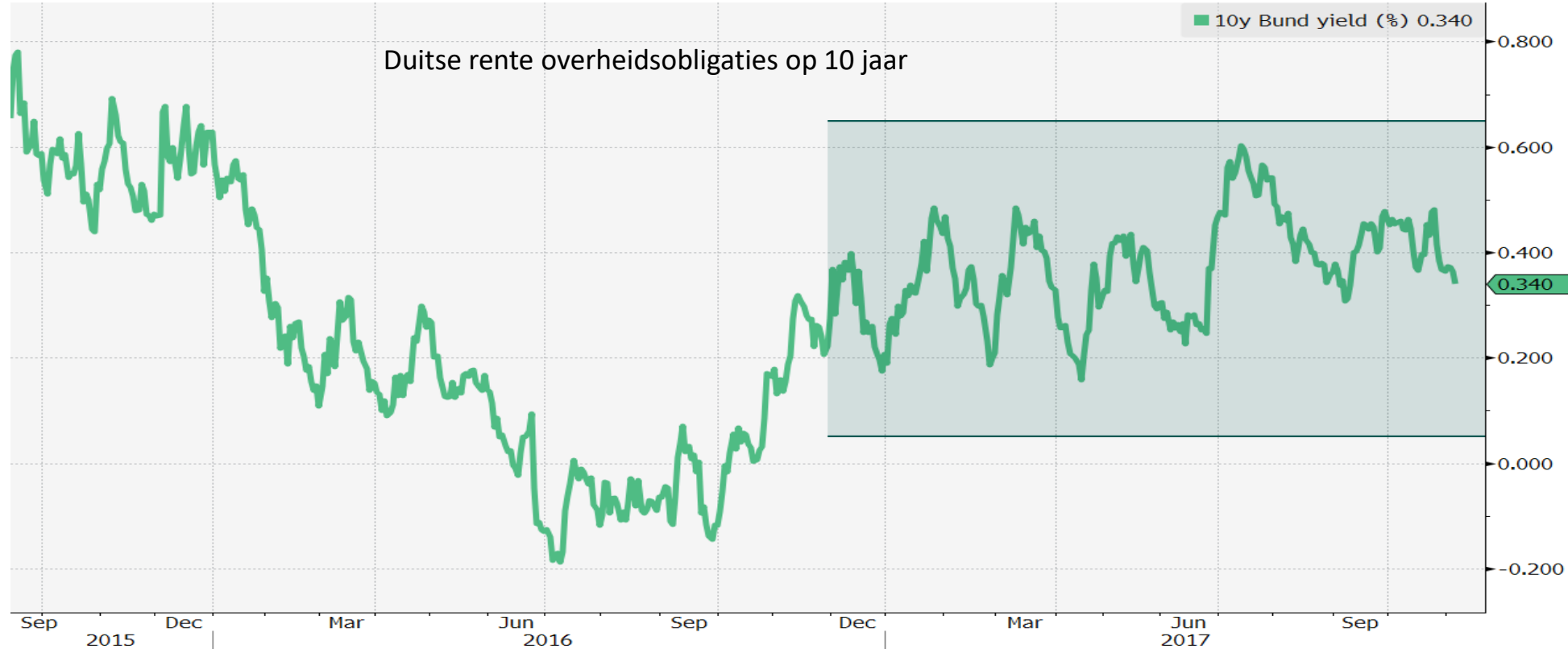
Région	Positionnement	Atouts	Risques
Europe	Surpondération	Rendement de dividende élevé Croissance bénéficiaire sous-estimée Politique monétaire accommodante	EUR fort
États-Unis	Sous-pondération	Croissance bénéficiaire Marché plus défensif	Valorisation chère Rendement de dividende faible Politique monétaire moins accommodante
Japon	Neutre	Cyclicité (dynamique de croissance) La politique monétaire restera accommodante le plus longtemps Réformes structurelles Stabilisation du yen	Cyclicité (stabilité des marges)
Marchés émergents	Sous-pondération	Exposition à la croissance internationale Valorisations	Dollar plus fort Élections 2018 Chine (croissance du crédit, politique monétaire moins accommodante, rééquilibrage)

Surpondération des actions européennes, sous-pondération des États-Unis et des marchés émergents



Strategie – Een verminderde rentegevoeligheid

Door de normalisering van de monetaire politiek zijn de risico's voor de rente opwaarts, maar zolang de inflatie laag blijft verwachten we geen opstoot van de obligatierente.

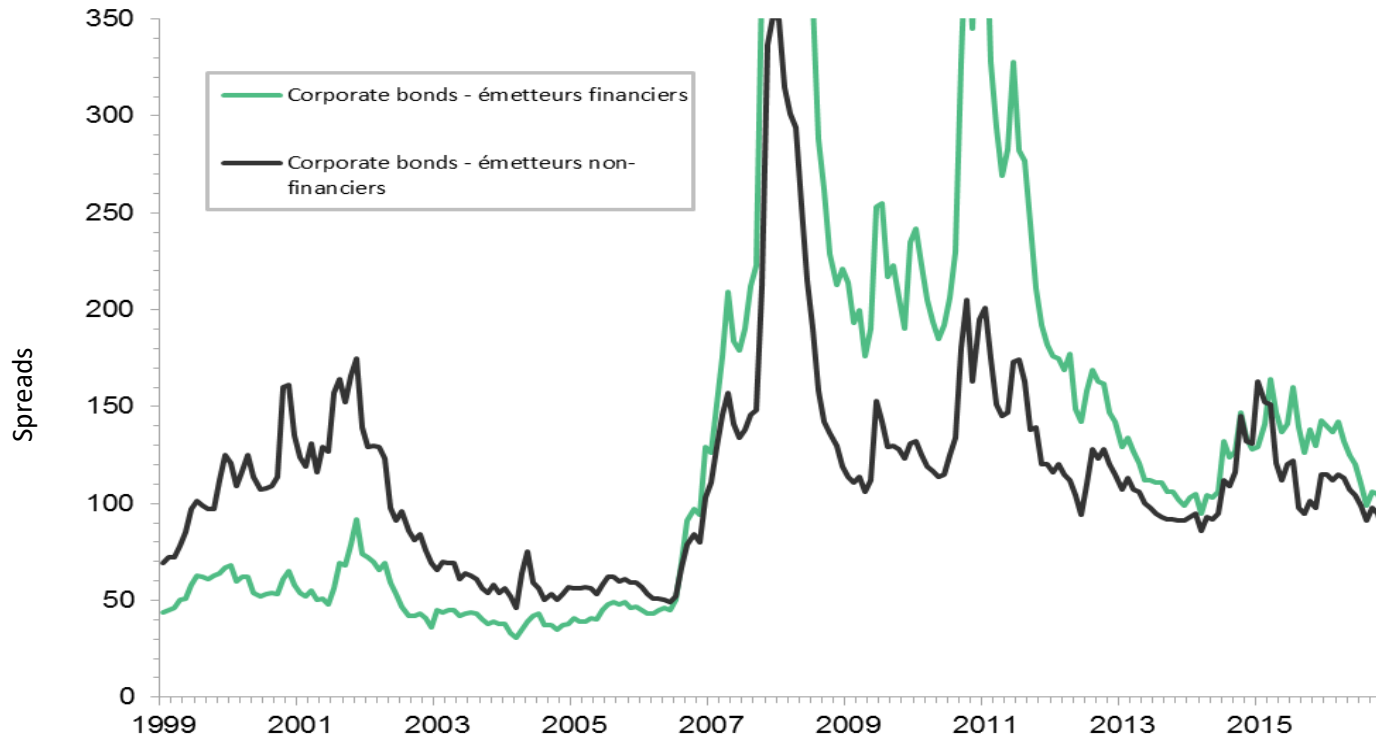


Verlaagde rentegevoeligheid – Duitse 10-jarige rente wordt verwacht te evolueren in een bandbreedte van +0,05% en +0,65%



Stratégie – Opter pour les obligations d’entreprises Investment Grade

Les obligations d’entreprises offrent encore un petit surplus de rendement. La BCE a confirmé qu’elle continuerait à acheter des obligations d’entreprises en 2018.

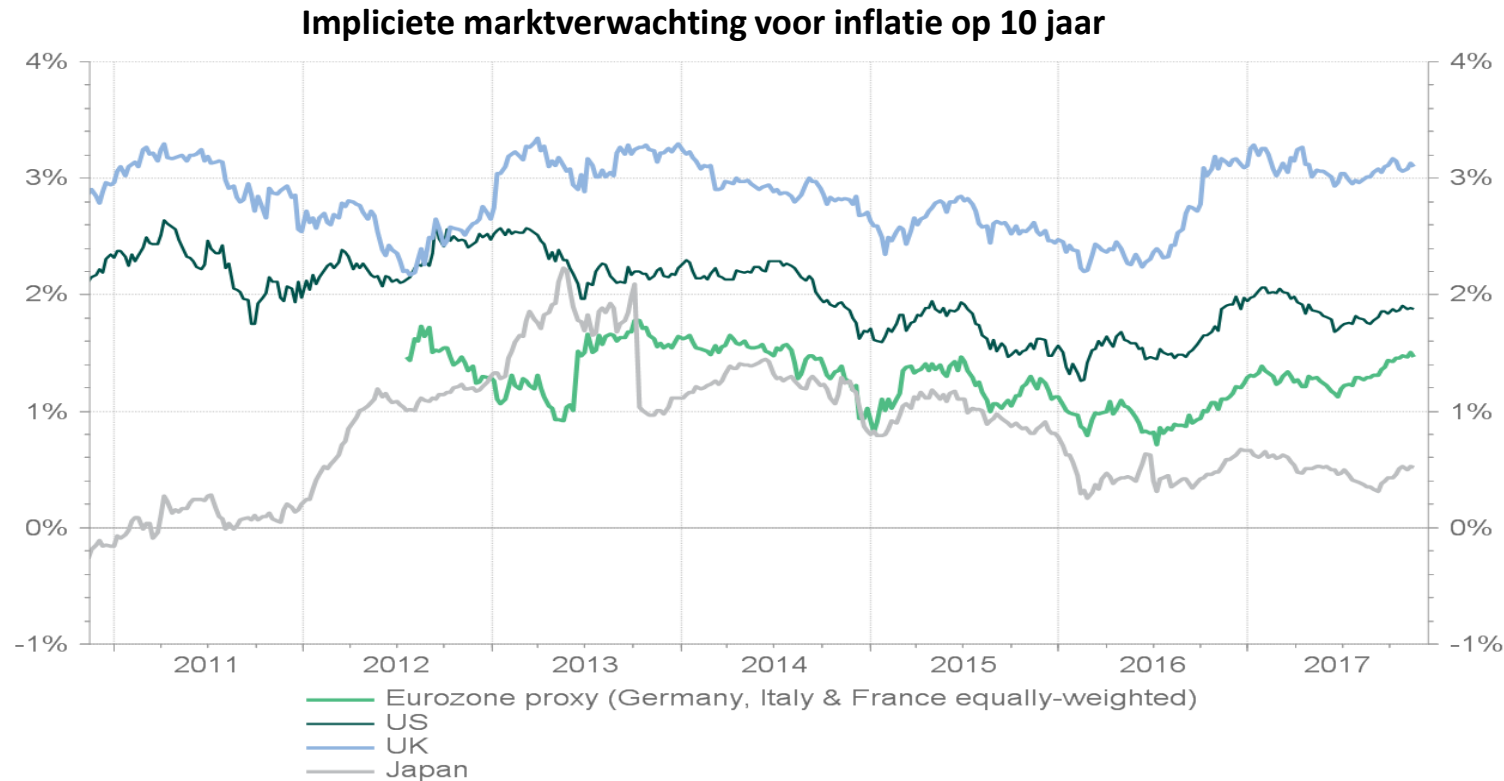


Surpondération des obligations d’entreprises de qualité en euro



Strategie – Blijf belegd in inflatie gelinkte obligaties

Wereldwijde inflatie gelinkte obligaties zijn geprijsd volgens een geringe inflatie-verwachting, zij zullen goed presteren wanneer inflatie meer aan de oppervlakte komt.



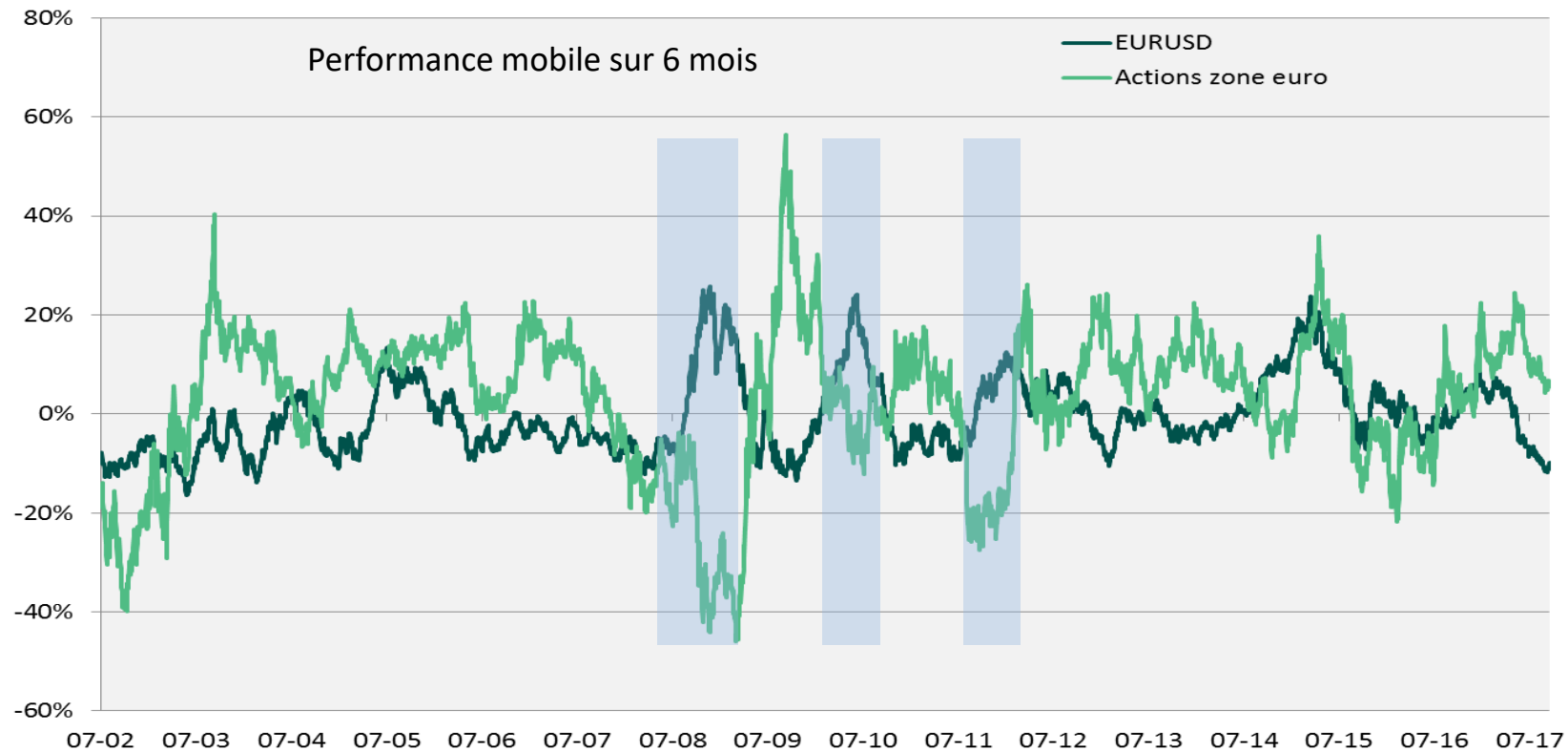
Source: Thomson Reuters Datastream

Overweging wereldwijde inflatie gelinkte obligaties



Stratégie - Diversifier en dehors de l'euro : USD

Malgré sa relative cherté, le dollar américain peut s'avérer intéressant en raison de sa décorrélation avec les actifs européens en période de turbulence sur les marchés.

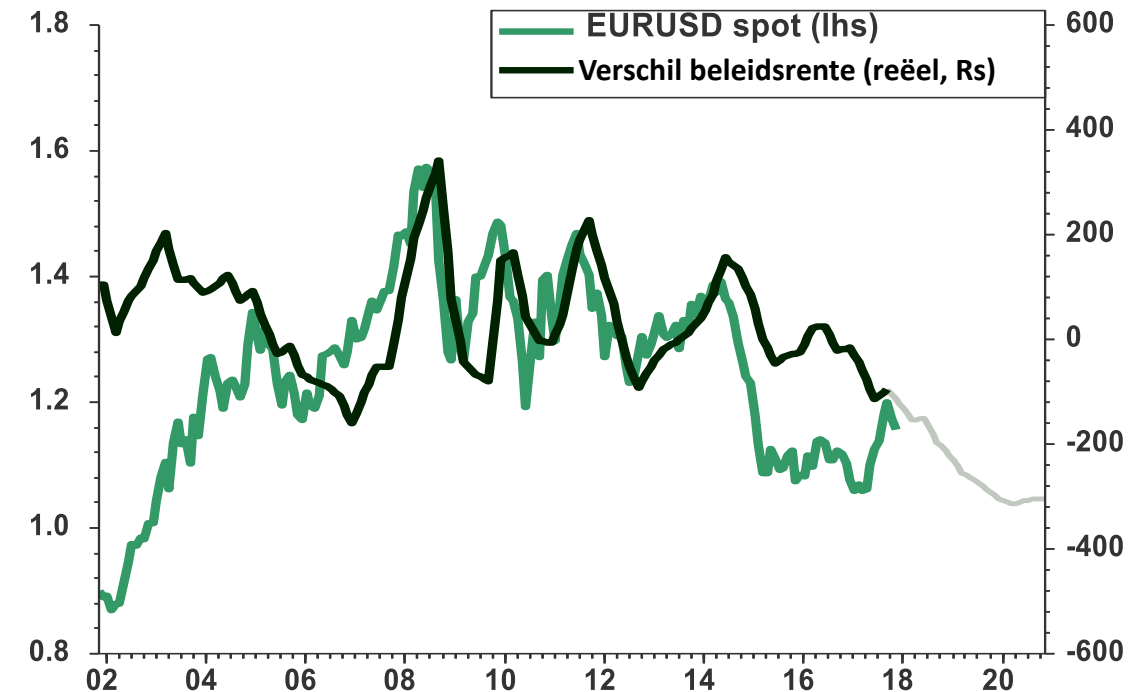
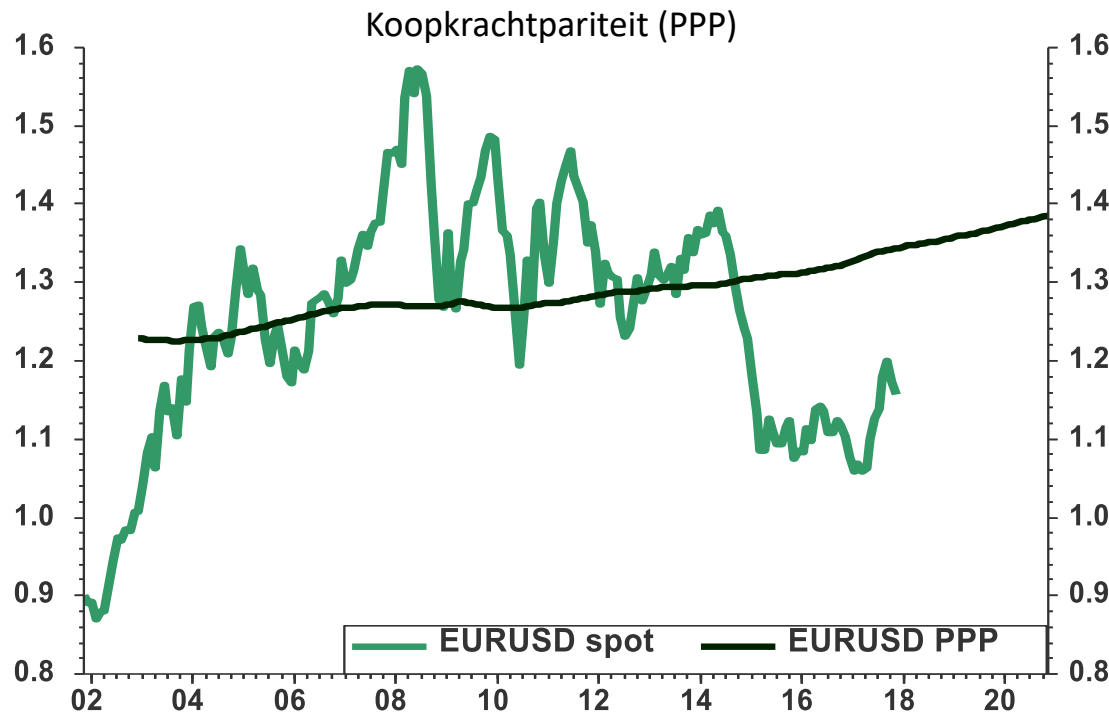


Légère surpondération en USD



Waarderingen - USD

Op basis van de koopkrachtpariteit is de USD overgewaardeerd tegenover de EUR, temeer omdat het inflatiepotentieel in de toekomst hoger ligt in de VS dan in de eurozone

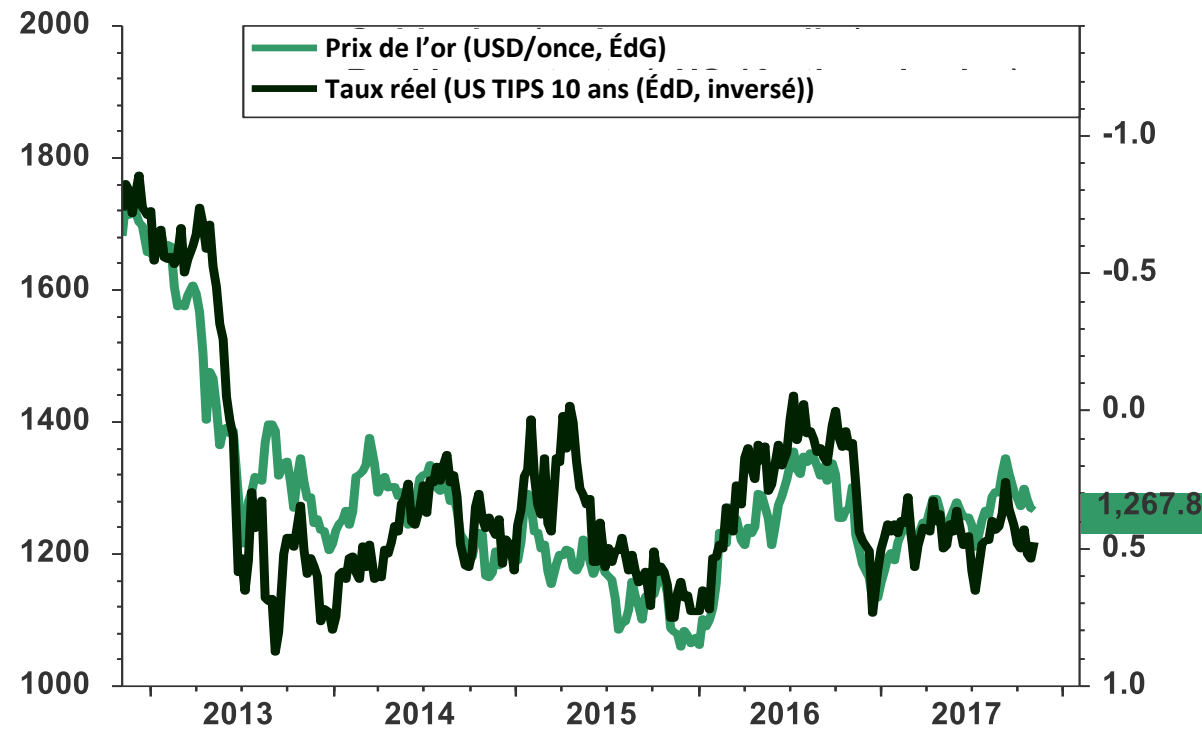


De marktverwachting (2) onderschat het aantal renteverhogingen door de FED tot eind 2018. De ECB zal waakzaam zijn voor een forse USD depreciatie wegens de impact op inflatie.



Stratégie - Diversifier en dehors de l'euro : l'or

Le coût d'opportunité de l'or est très bas. Dans certaines circonstances, l'or peut avoir une corrélation négative avec d'autres actifs.



Source: Thomson Reuters Datastream, Degroof Petercam

Surpondération de l'or



Strategie – Overzicht van de aanbevelingen

	Overweging	Neutraal	Onderweging
Aandelen		■	
Obligaties		■	
Liquiditeiten			■
Alternatieve beleggingen	■		
	Overweging	Neutraal	Onderweging
Obligaties		■	
Overheidsobligaties (EUR)			■
Bedrijfsobligaties Investment grade (EUR)	■		
High yield (EUR)			■
Emerging markets (lokale munt)		■	
Deviezen			
Goud	■		
Dollar		■	
	Overweging	Neutraal	Onderweging
Aandelen		■	
Europa	■		
Verenigde Staten			■
Japan		■	
Emerging markets			■



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