



Economic Outlook:

Looking through the fog

Peter Vanden Houte
Chief Economist

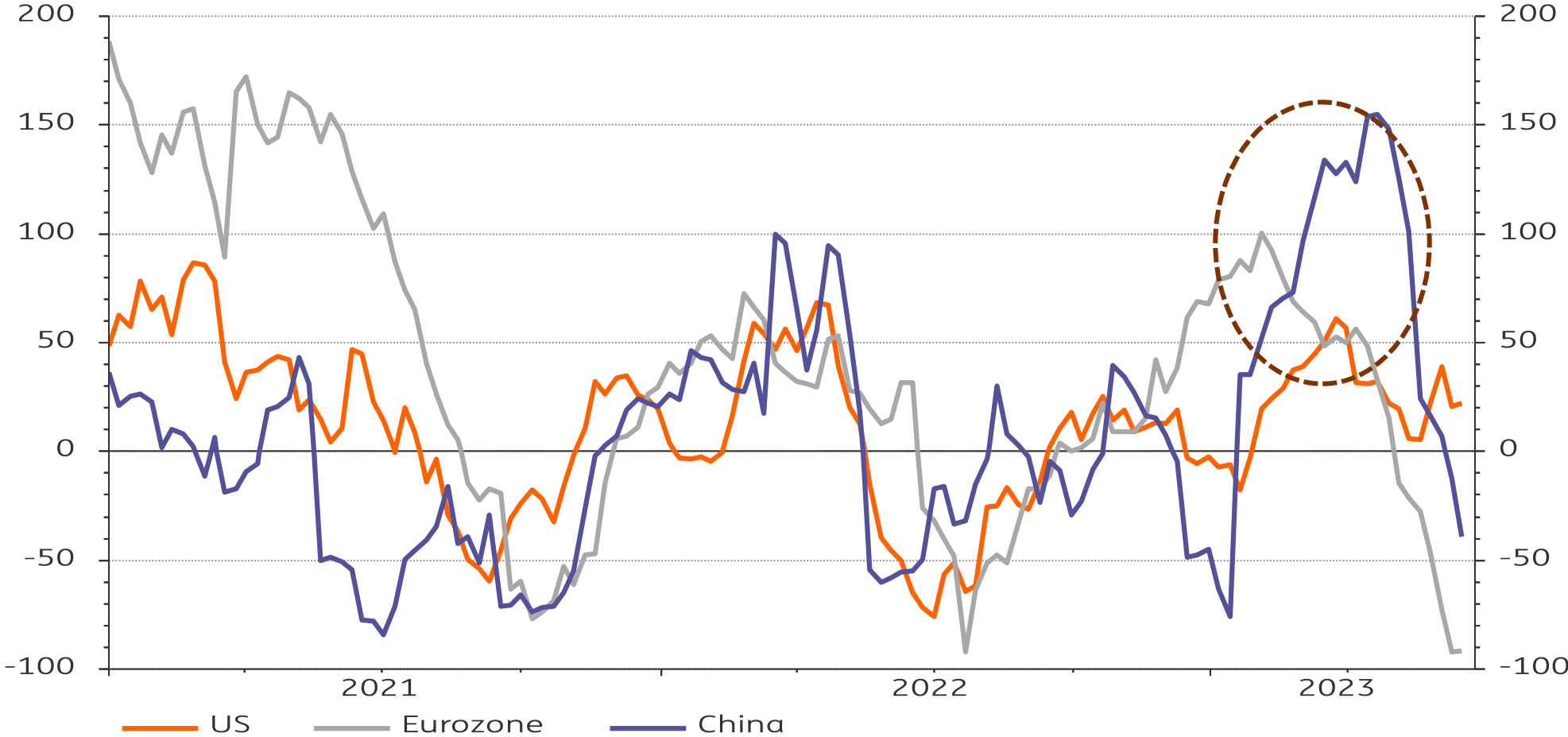
June, 21 2023



do your thing

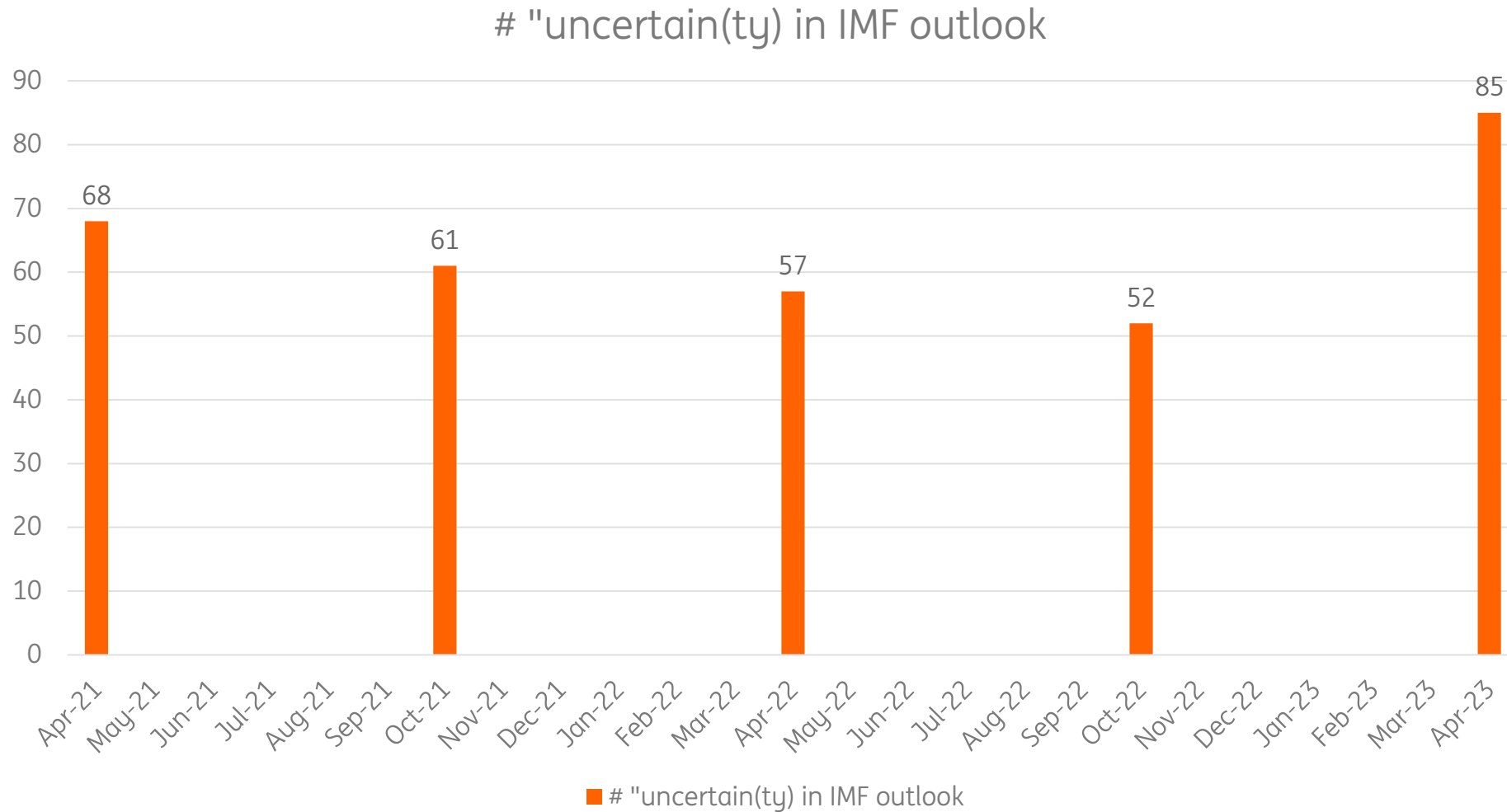
Since the end of 2022 economic indicators had been better than expected, but lately data start to disappoint again

Citigroup economic surprise indices

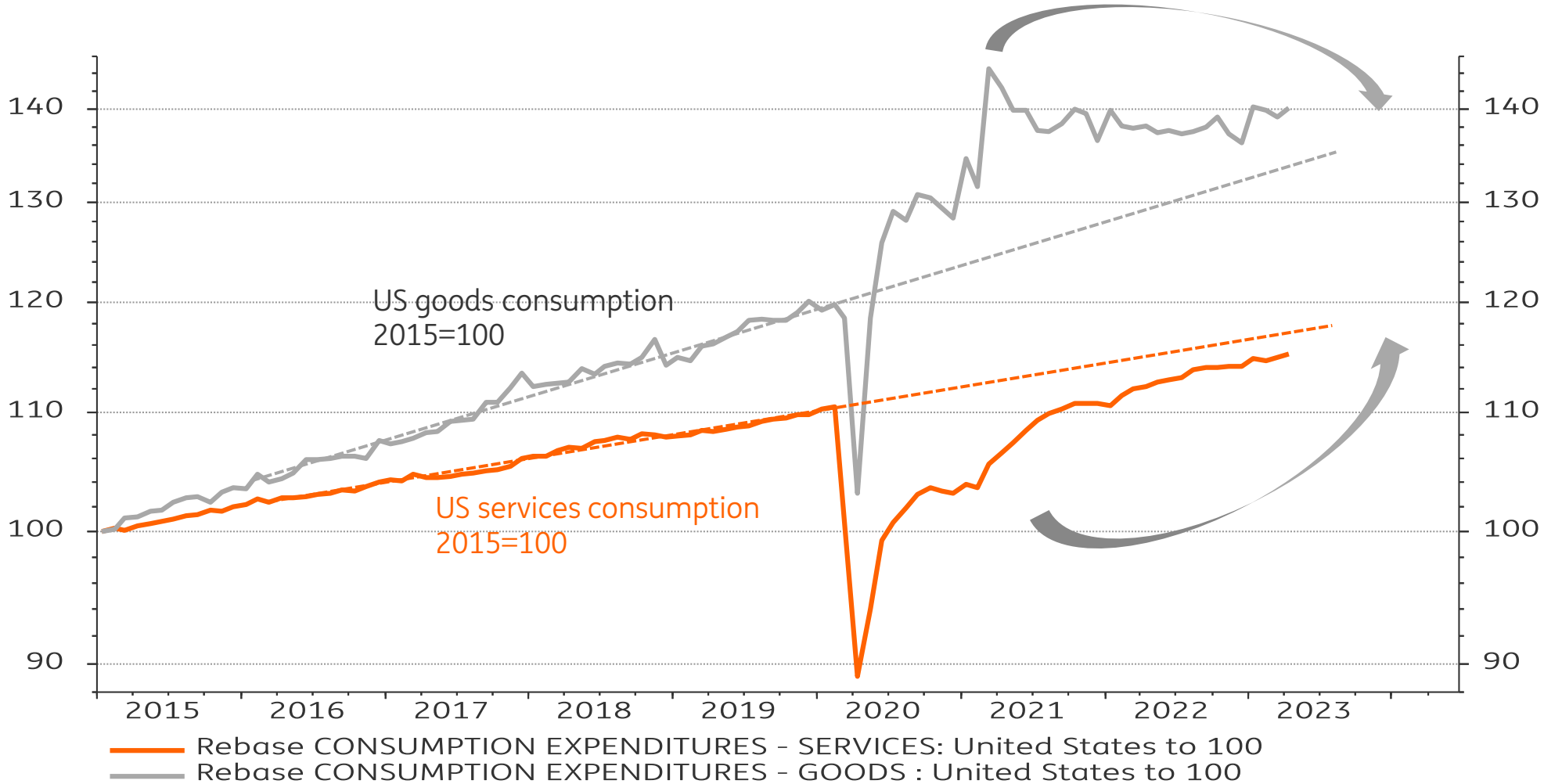


Source: Refinitiv Datastream, ING Economic Research

Uncertainty has strongly increased

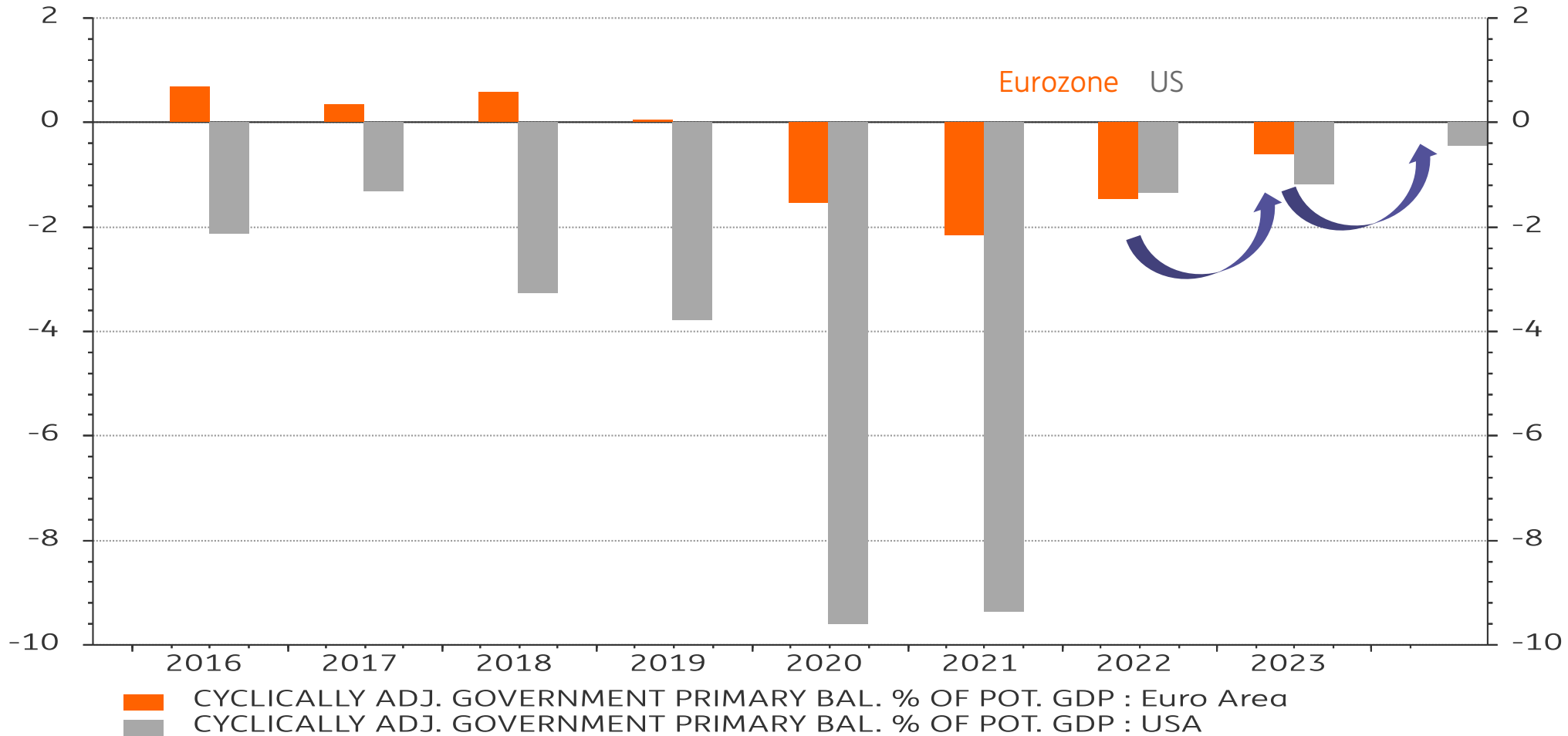


Goods demand is shrinking, post-pandemic catch-up in services consumption



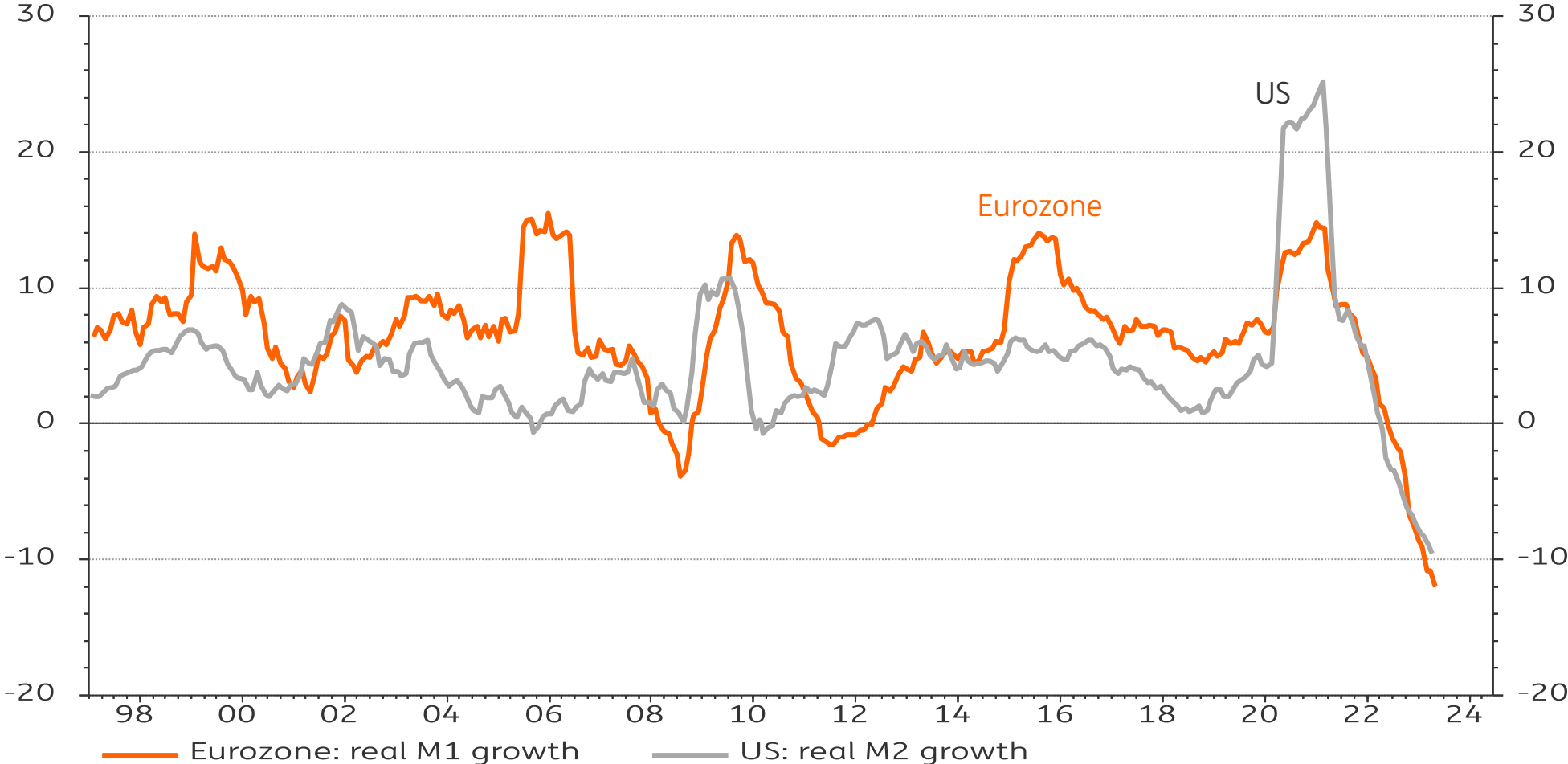
Source: Refinitiv Datastream, ING Economic Research

Budgetary policy will get less expansionary...



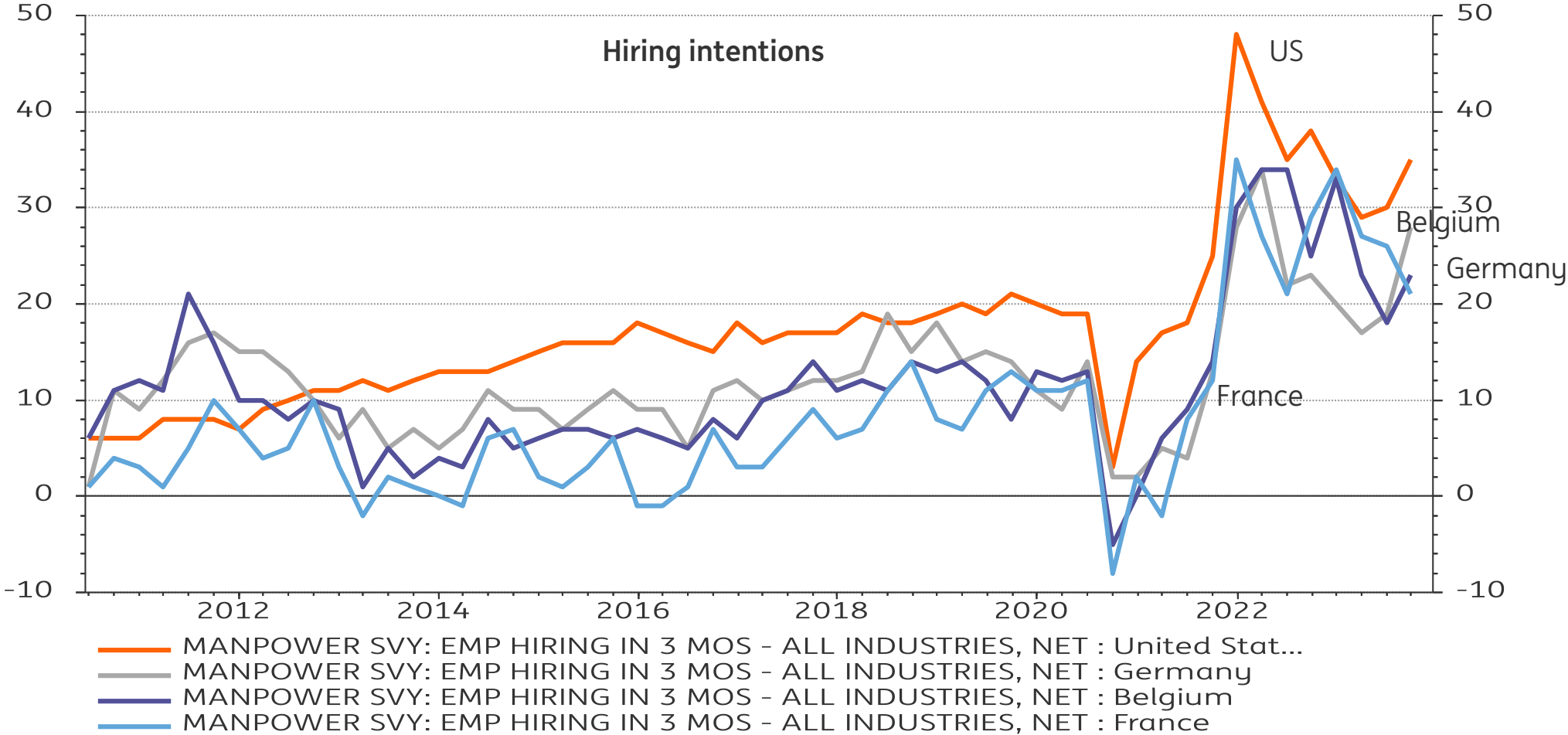
Source: Refinitiv Datastream, ING Economic Research

... and tighter monetary policy will slow growth



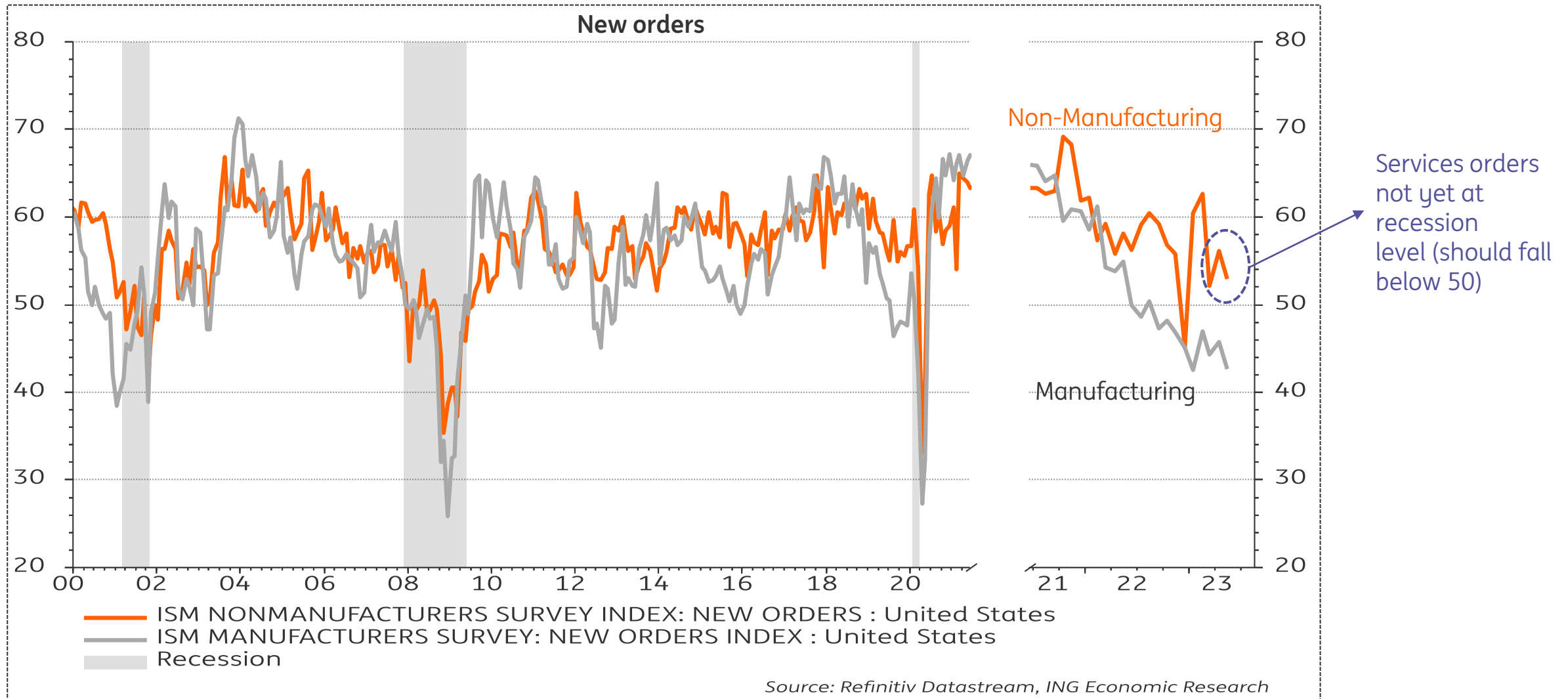
Source: Refinitiv Datastream, ING Economic Research

Structural labour scarcity will mitigate severity of downturn



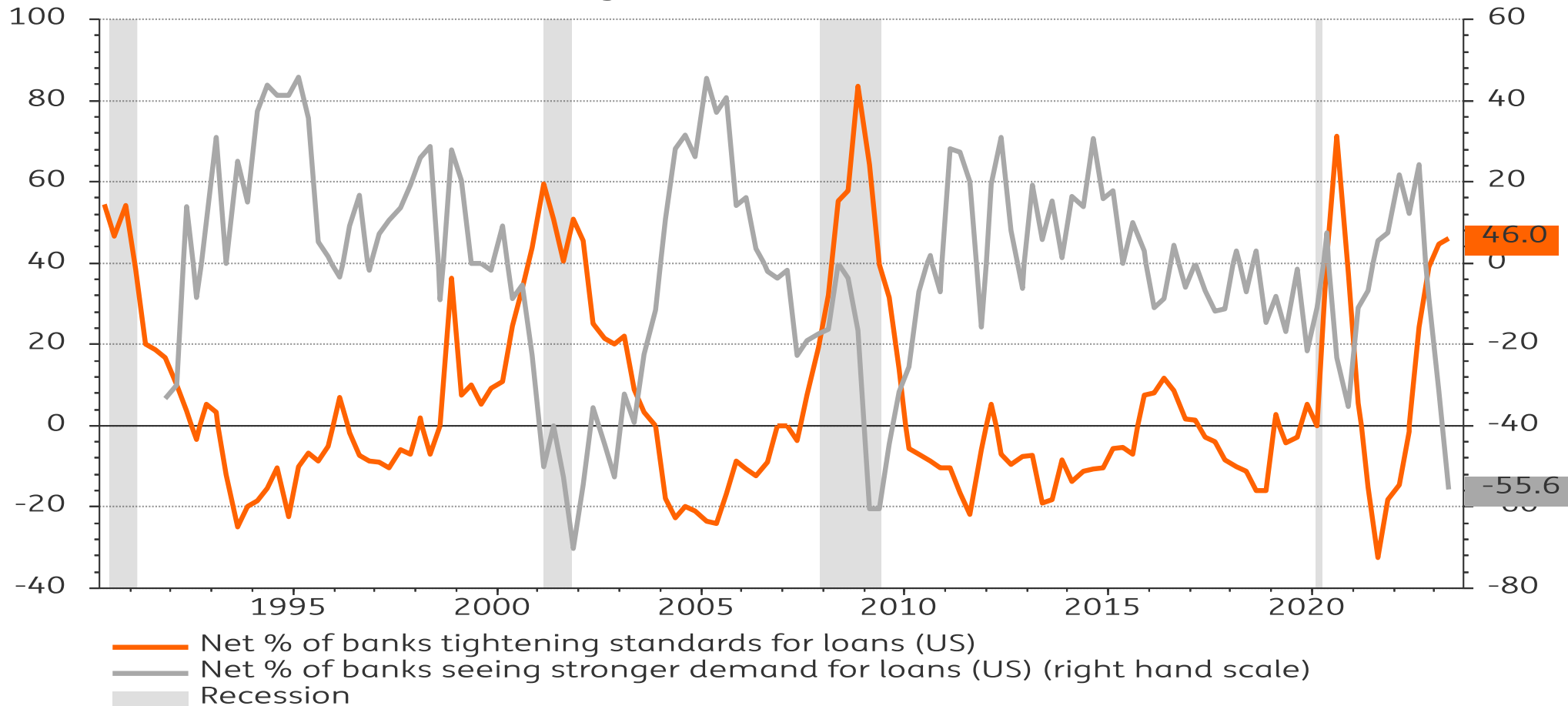
Source: Refinitiv Datastream, ING Economic Research

No recession yet in the US



Lending conditions are rapidly tightening in the US

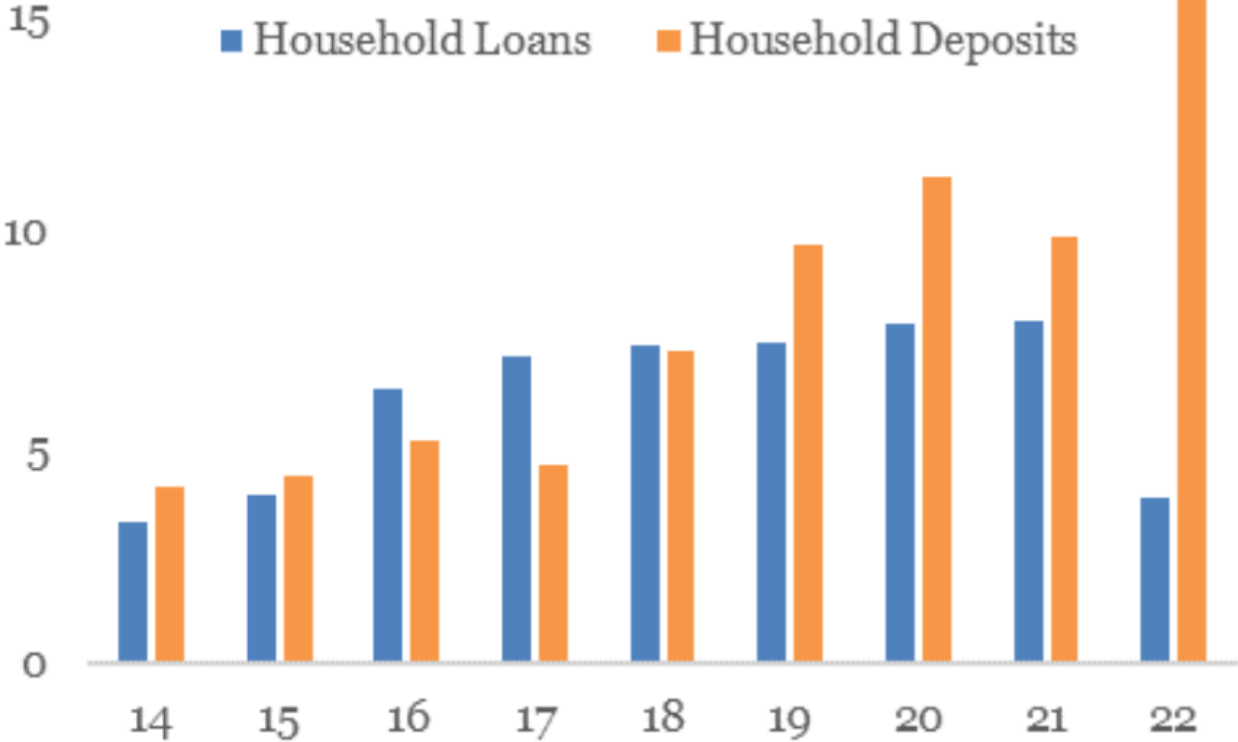
Fed Senior Loan officers' survey
Large and medium sized firms



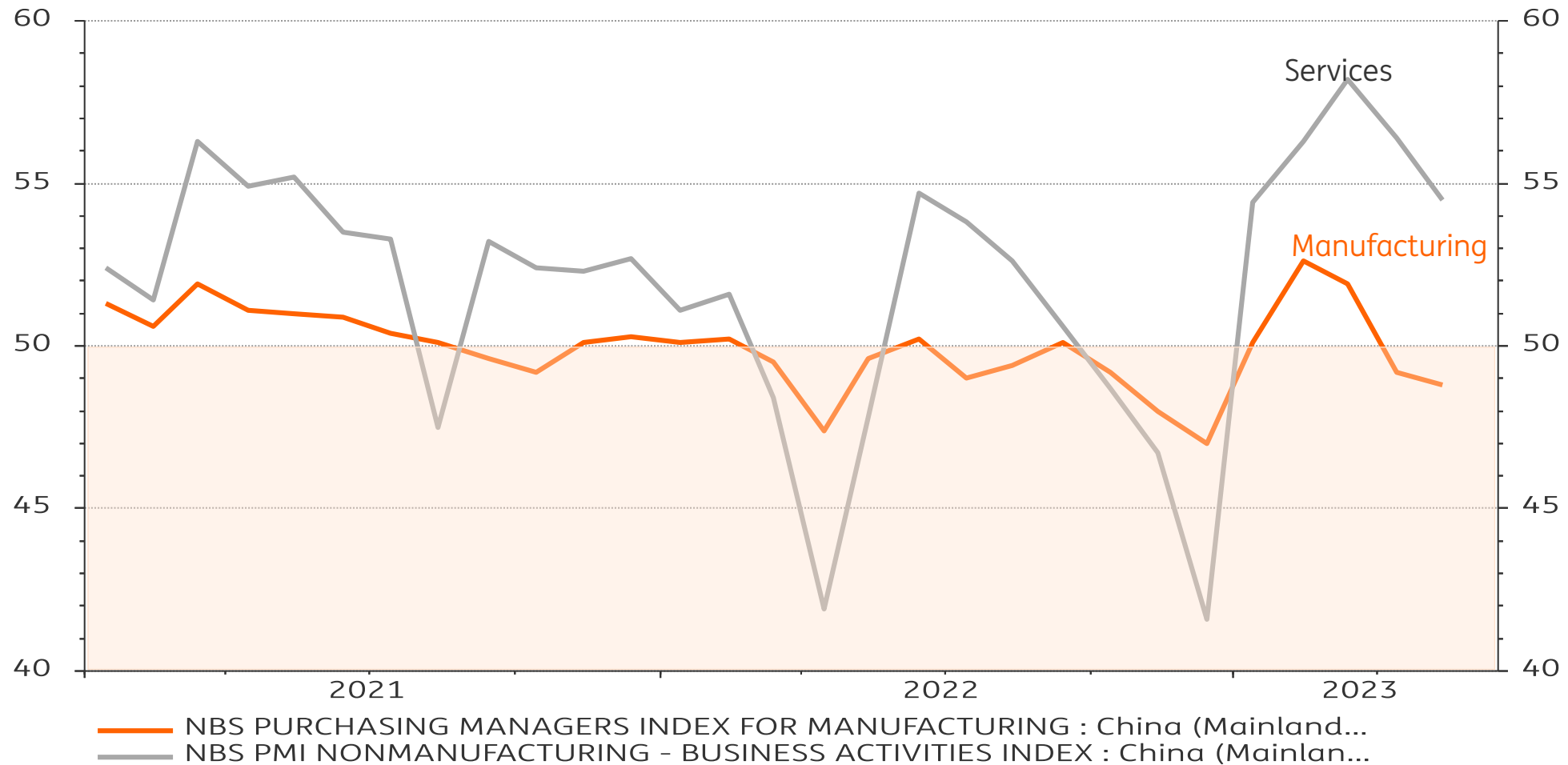
Source: Refinitiv Datastream, ING Economic Research

Consumption revives in China

Annual change, ¥ tln

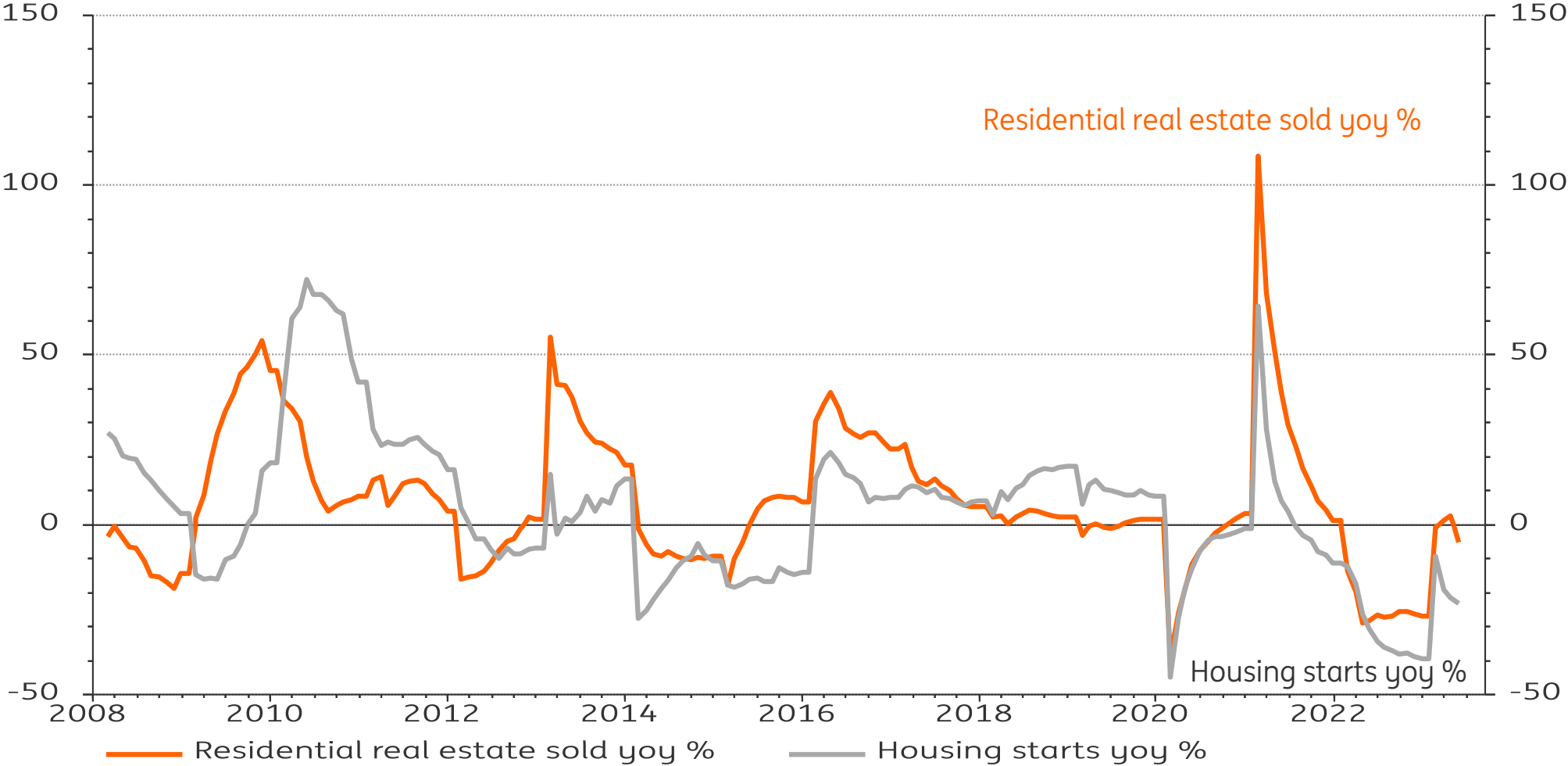


But only Chinese services drive growth for the time being...



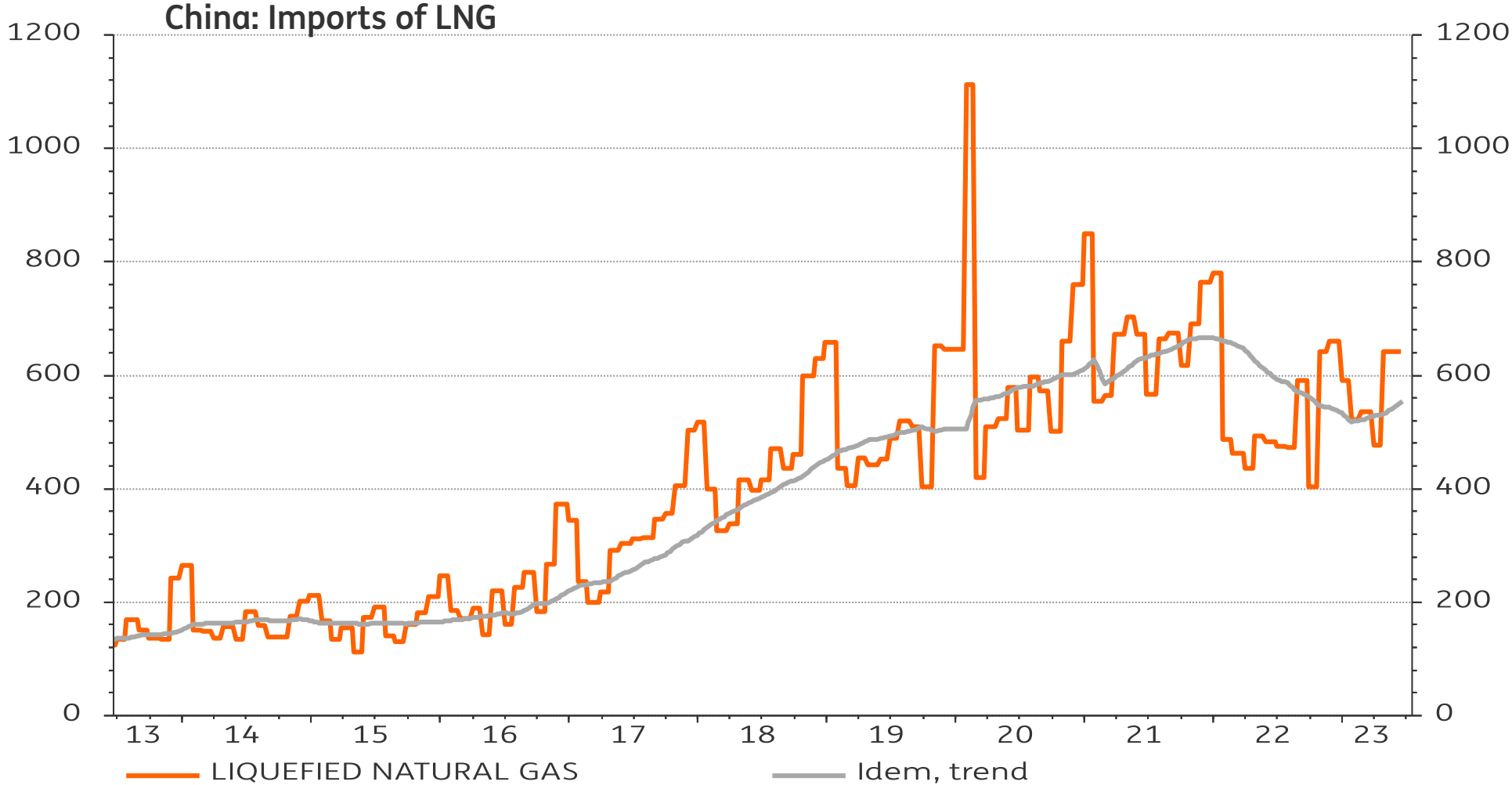
Source: Refinitiv Datastream, ING Economic Research

...and Chinese construction still in the doldrums



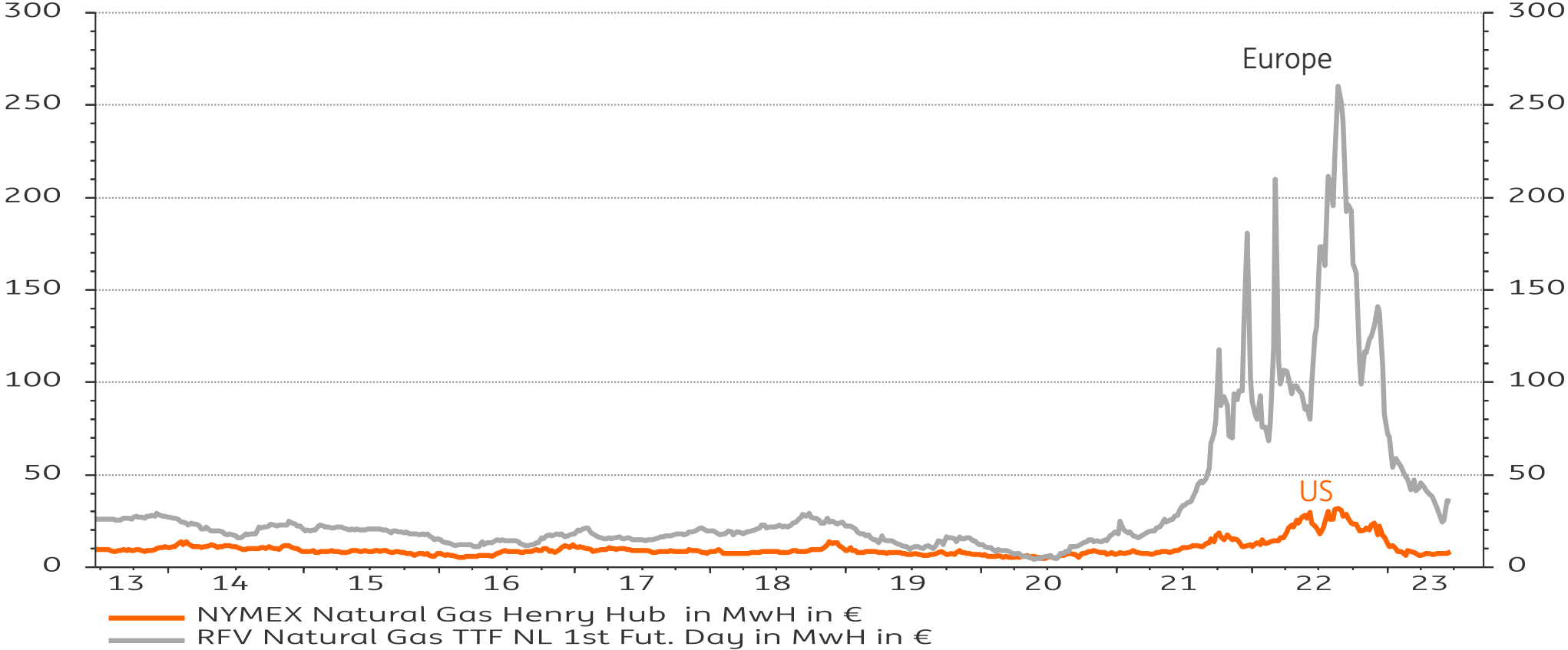
Source: Refinitiv Datastream, ING Economic Research

Weak Chinese recovery is keeping LNG prices low



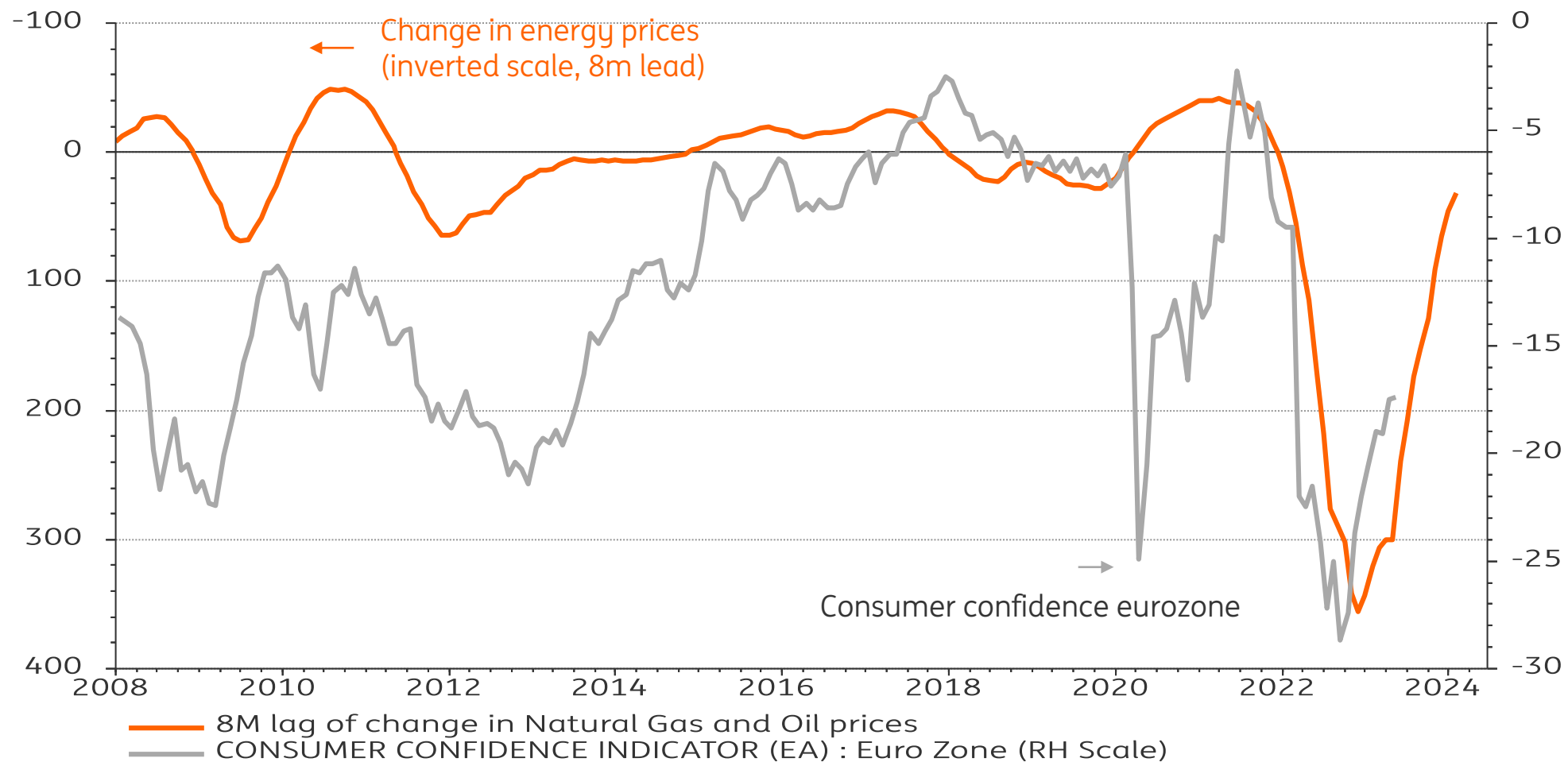
Source: Refinitiv Datastream, ING Economic Research

Natural gas prices have fallen strongly on the back of a warm winter



Source: Refinitiv Datastream, ING Economic Research

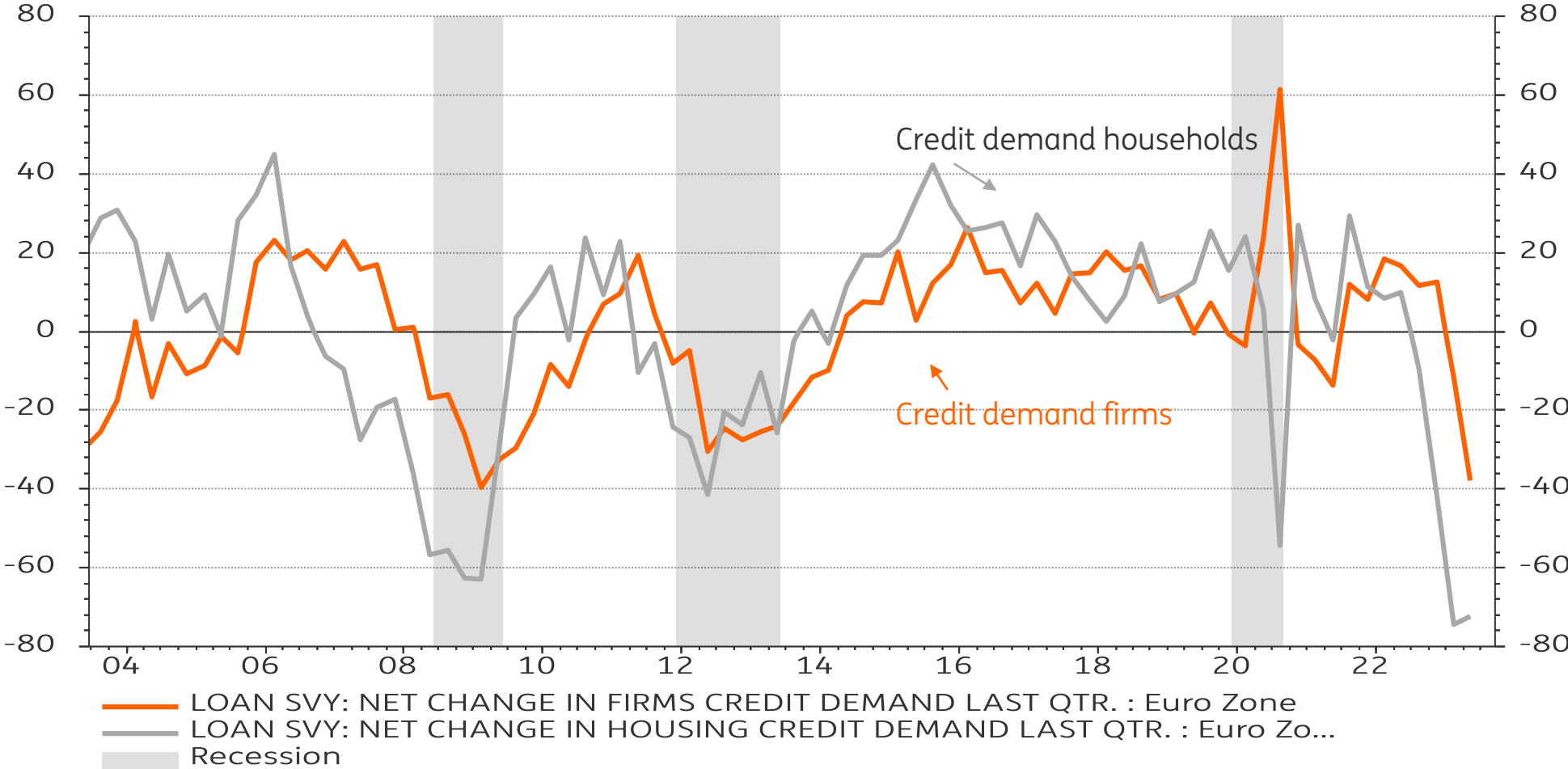
Lower energy prices are improving consumer confidence in Europe...



Source: Refinitiv Datastream, ING Economic Research

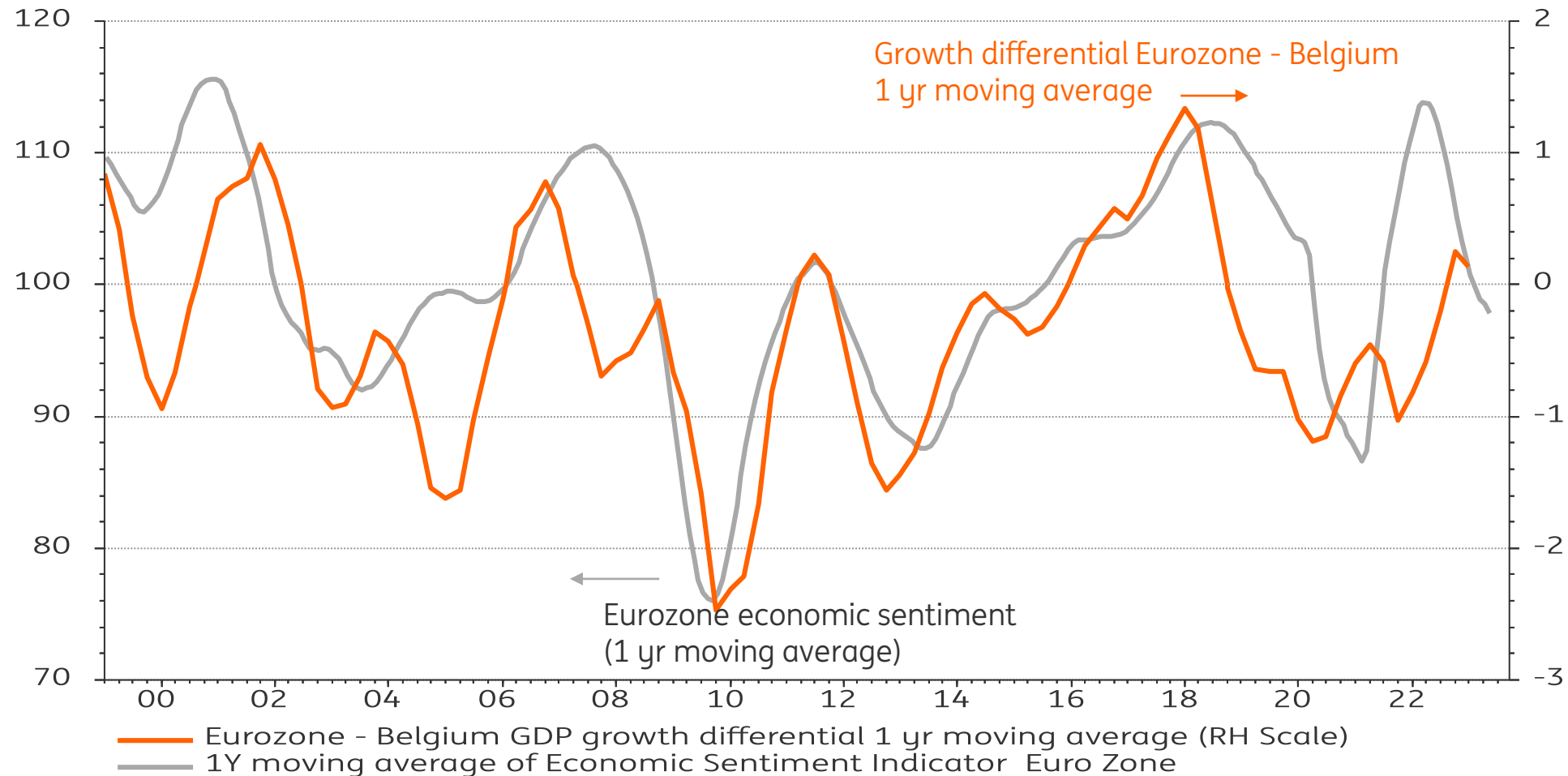
...but tighter monetary policy is slowing down the expansion

Bank Lending Survey April 2023



Source: Refinitiv Datastream, ING Economic Research

Belgium economy is less cyclical than the rest of the Eurozone

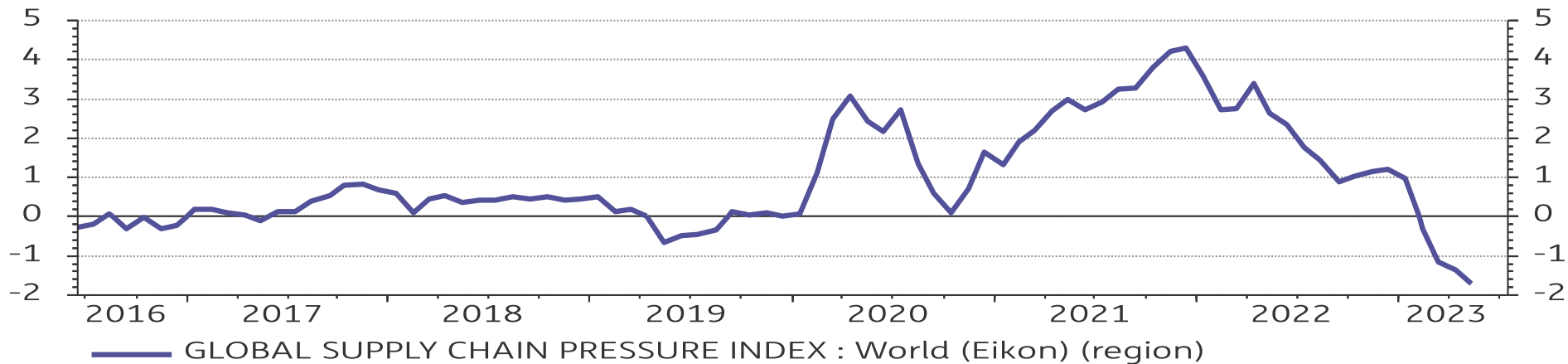
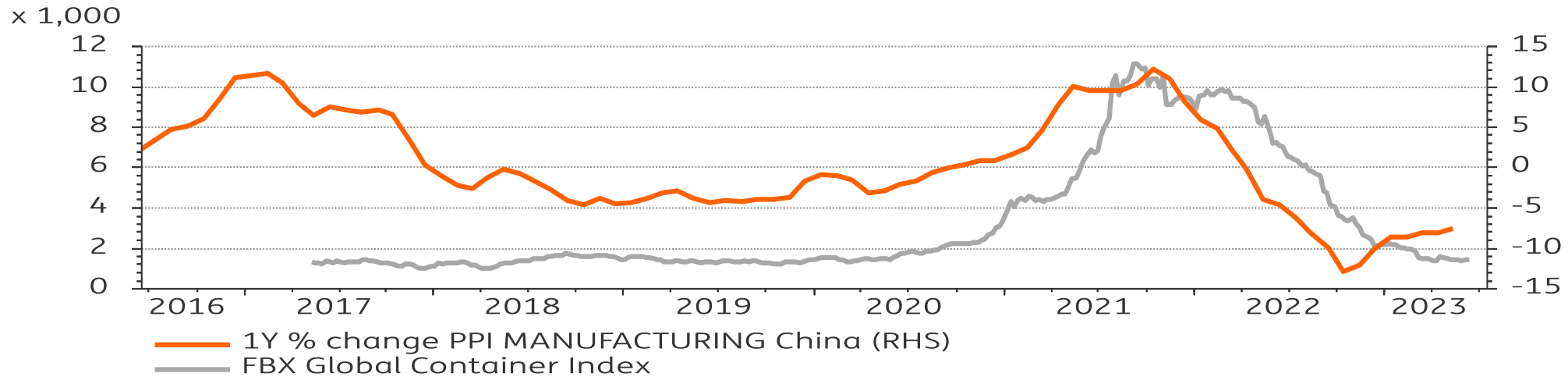


Source: Refinitiv Datastream, ING Economic Research

Growth expectations

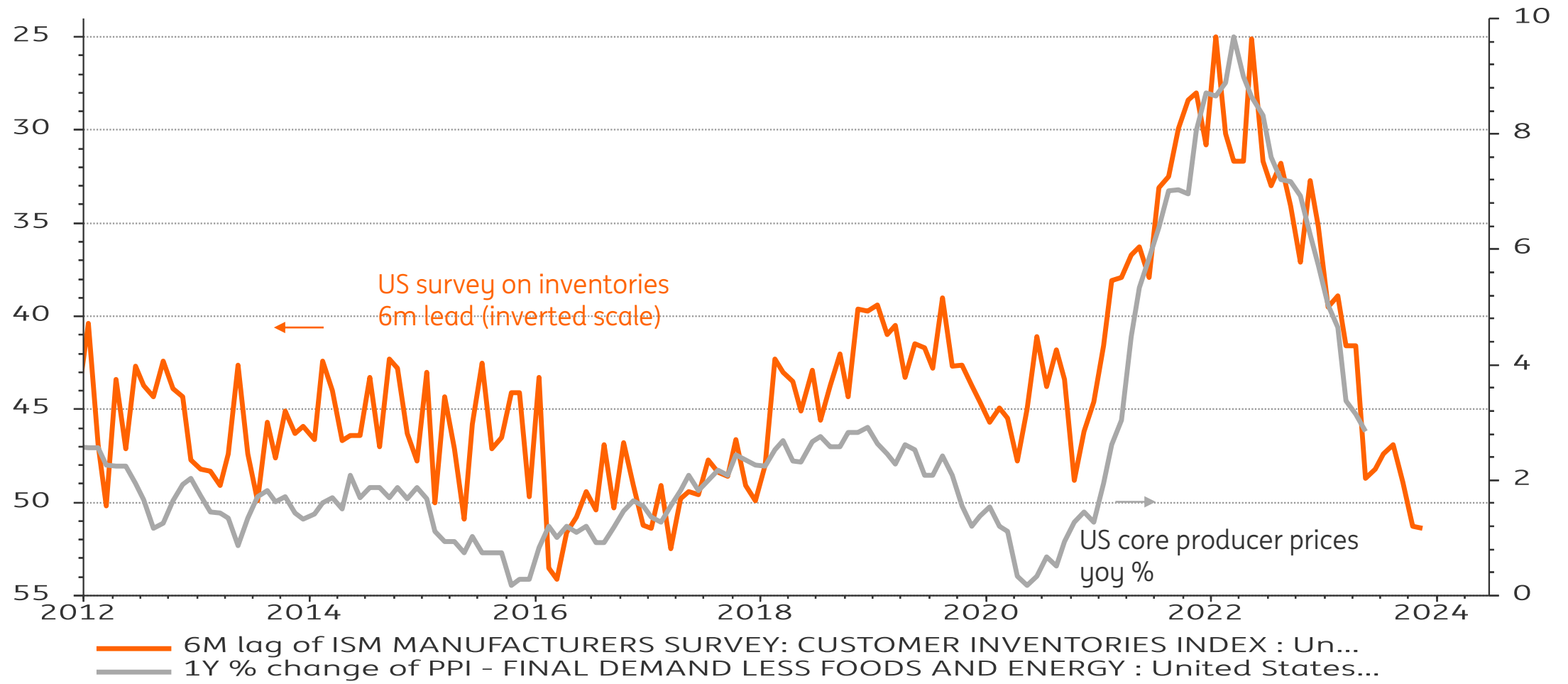
	2021	2022	2023	2024
US	5.7	2.1	1.2	0.2
Eurozone	5.4	3.5	0.5	0.5
UK	7.5	4.1	0.3	1.1
Belgium	6.1	3.1	1.0	0.7
Japan	1.6	1.3	1.1	1.0
China	8.8	3.0	5.7	4.7

Supply chain constraints have largely disappeared



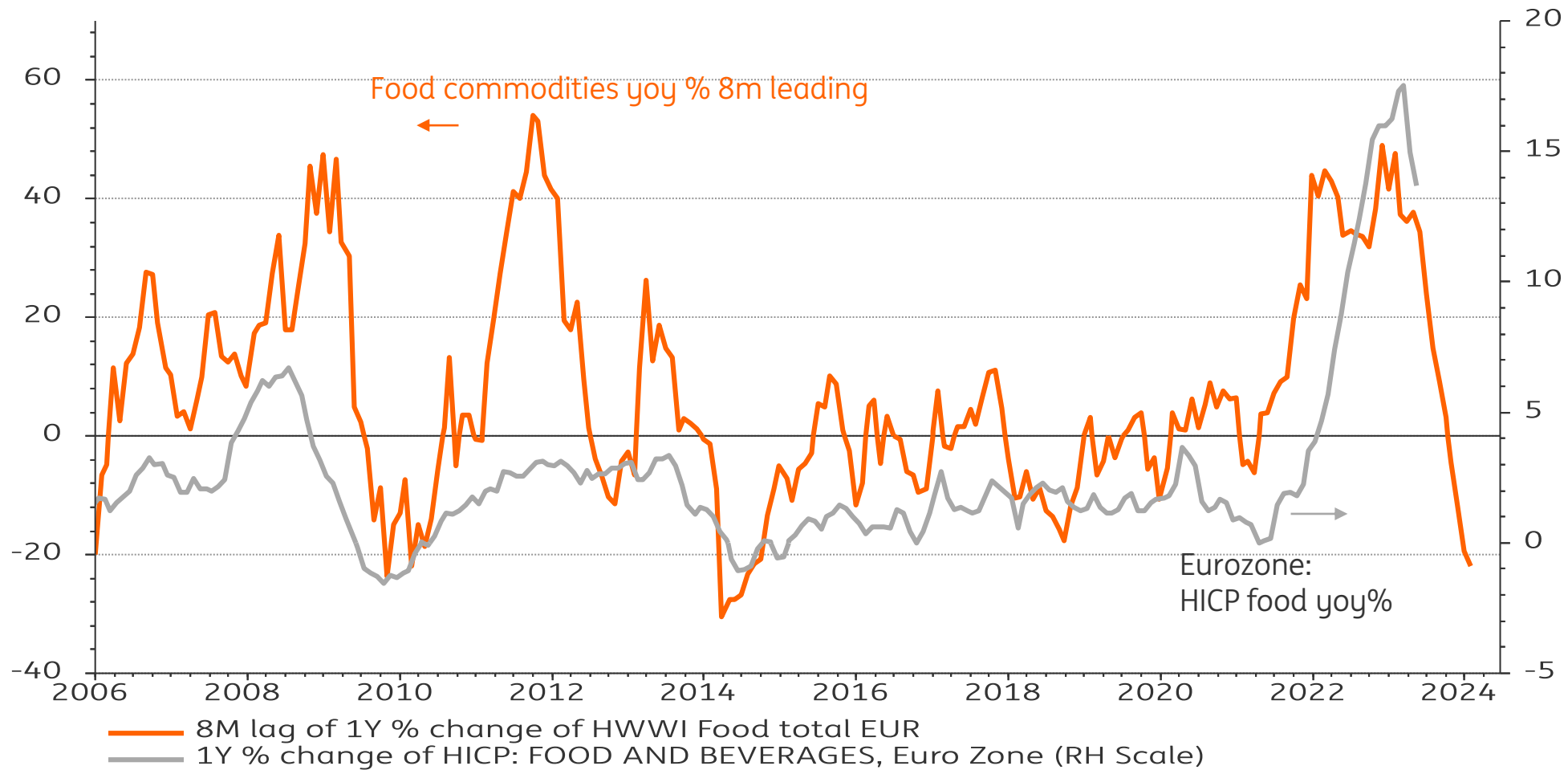
Source: Refinitiv Datastream, ING Economic Research

Deflationary pressures in manufacturing



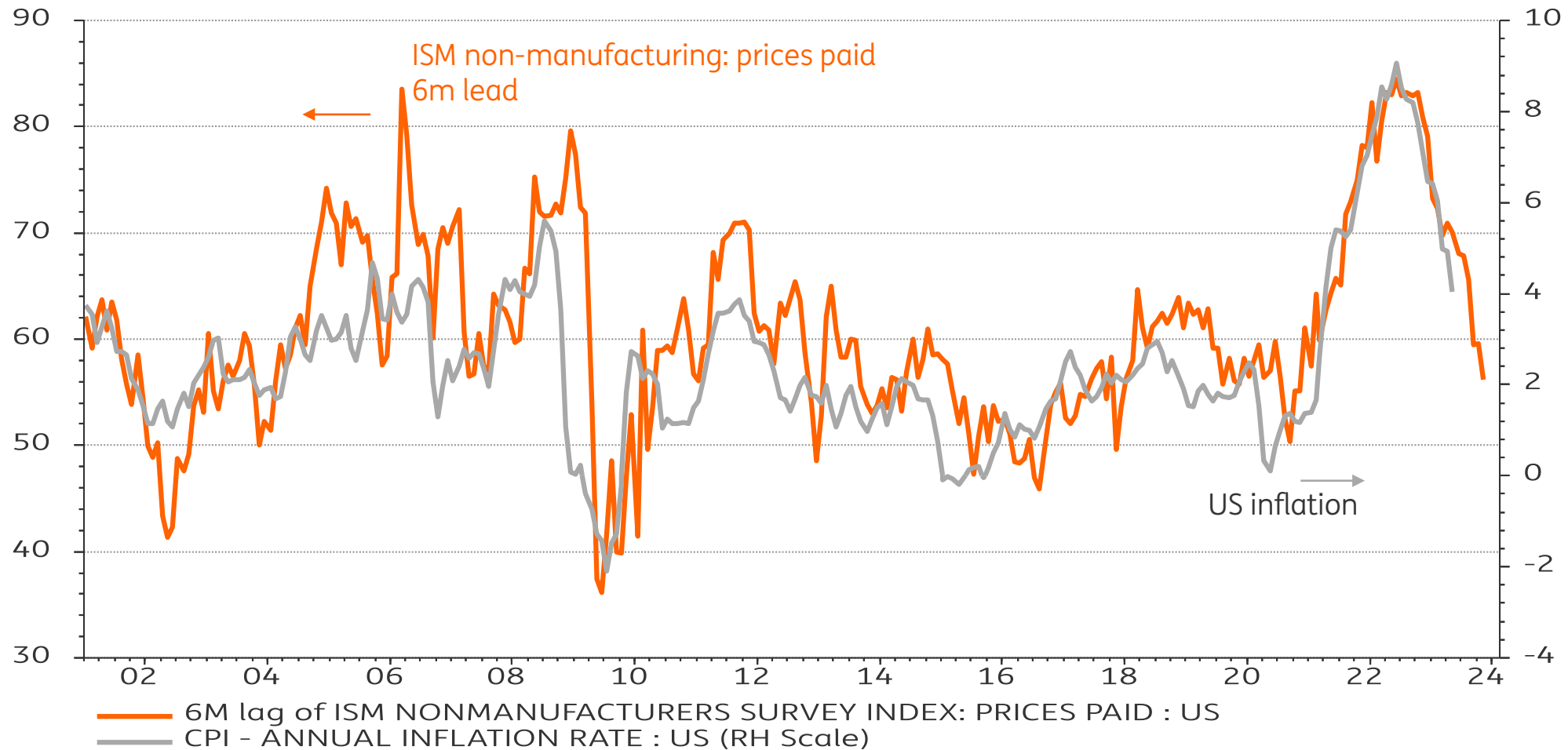
Source: Refinitiv Datastream, ING Economic Research

Eurozone: Food inflation should fall back in H2 2023



Source: Refinitiv Datastream, ING Economic Research

US inflation likely to hit 2% by the end of the year



Source: Refinitiv Datastream, ING Economic Research

The factors that will determine ECB monetary policy



- 1) Inflation expectations (reliability of the models?)
- 2) Dynamics of core inflation
- 3) Monetary transmission

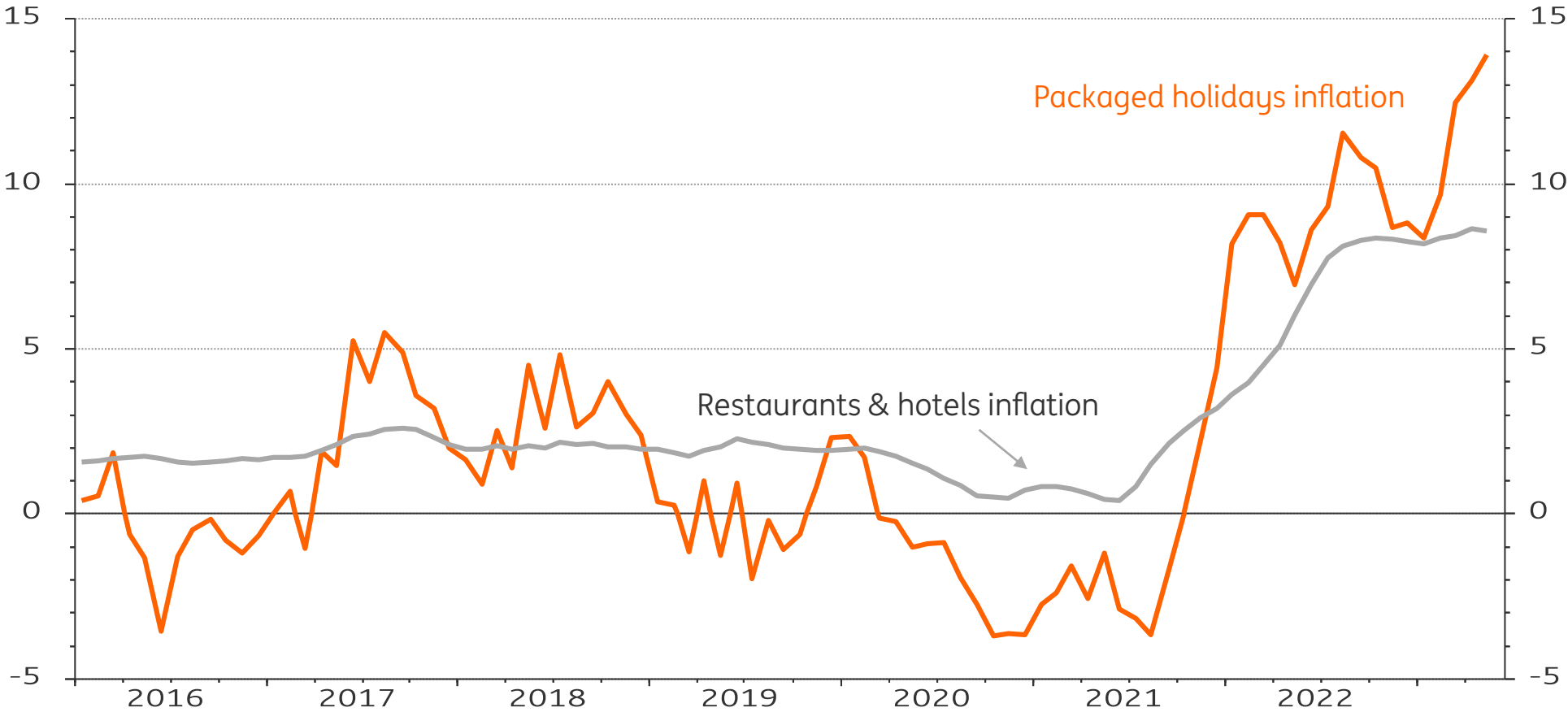


Growth and inflation projections for the euro area

(annual percentage changes)

	June 2023				
	2021	2022	2023	2024	2025
Real GDP	5.3	3.5	0.9	1.5	1.6
HICP	2.6	8.4	5.4	3.0	2.2

Strong price increases in services sectors that benefit from strong demand

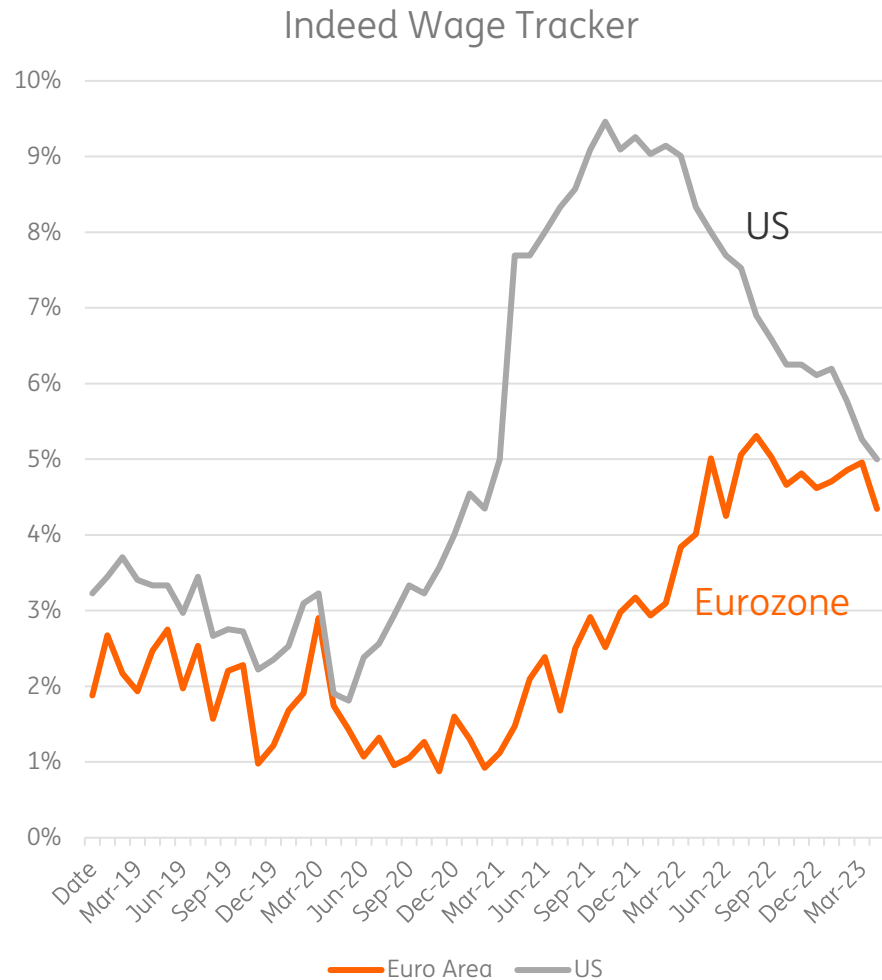


— 1Y % change of 3M moving average of HICP: PACKAGE HOLIDAYS, 2015=100 : E...
— 1Y % change of 3M moving average of HICP: RESTAURANTS AND HOTELS, 2015...

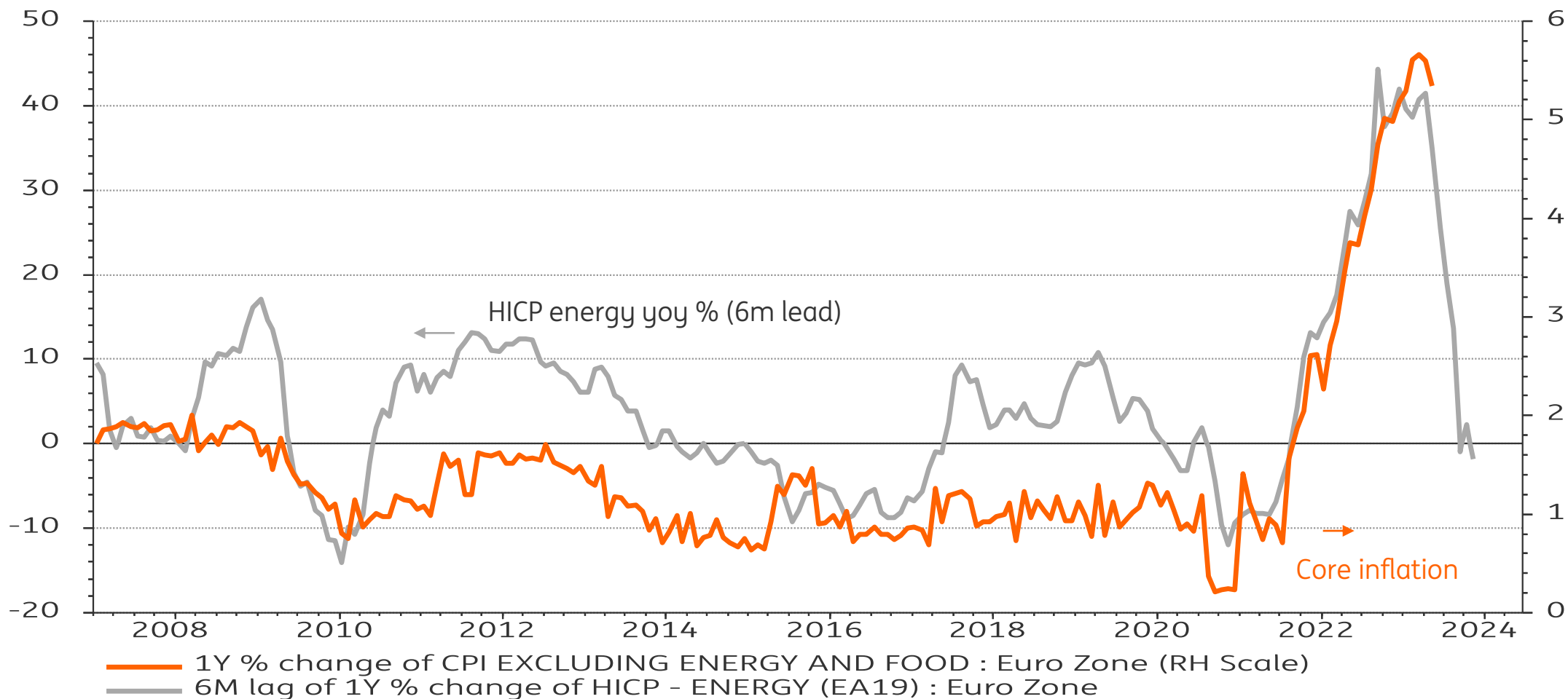
Source: Refinitiv Datastream, ING Economic Research



Wage growth for new hires has peaked

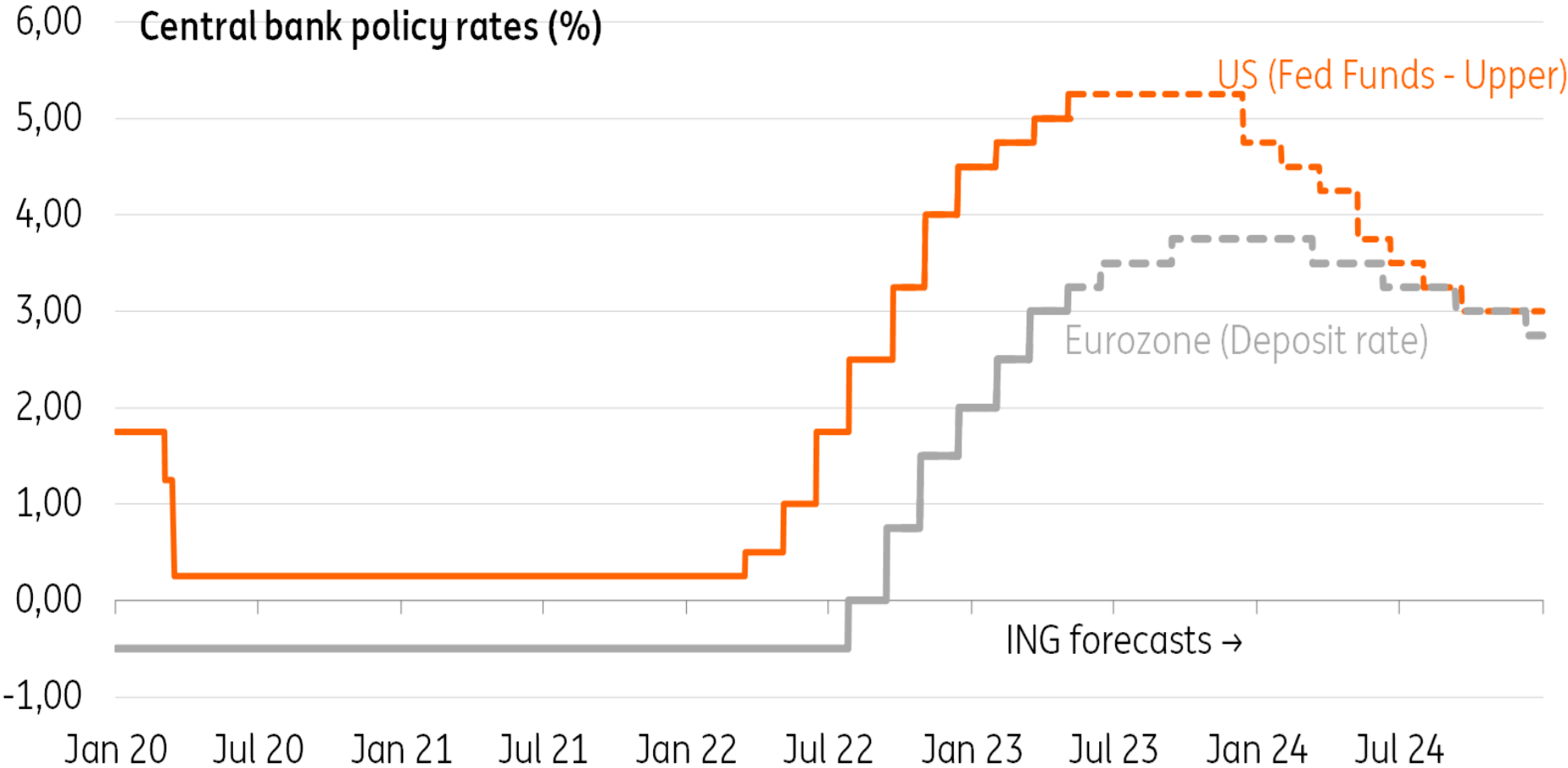


Eurozone core inflation will also be affected by lower energy prices

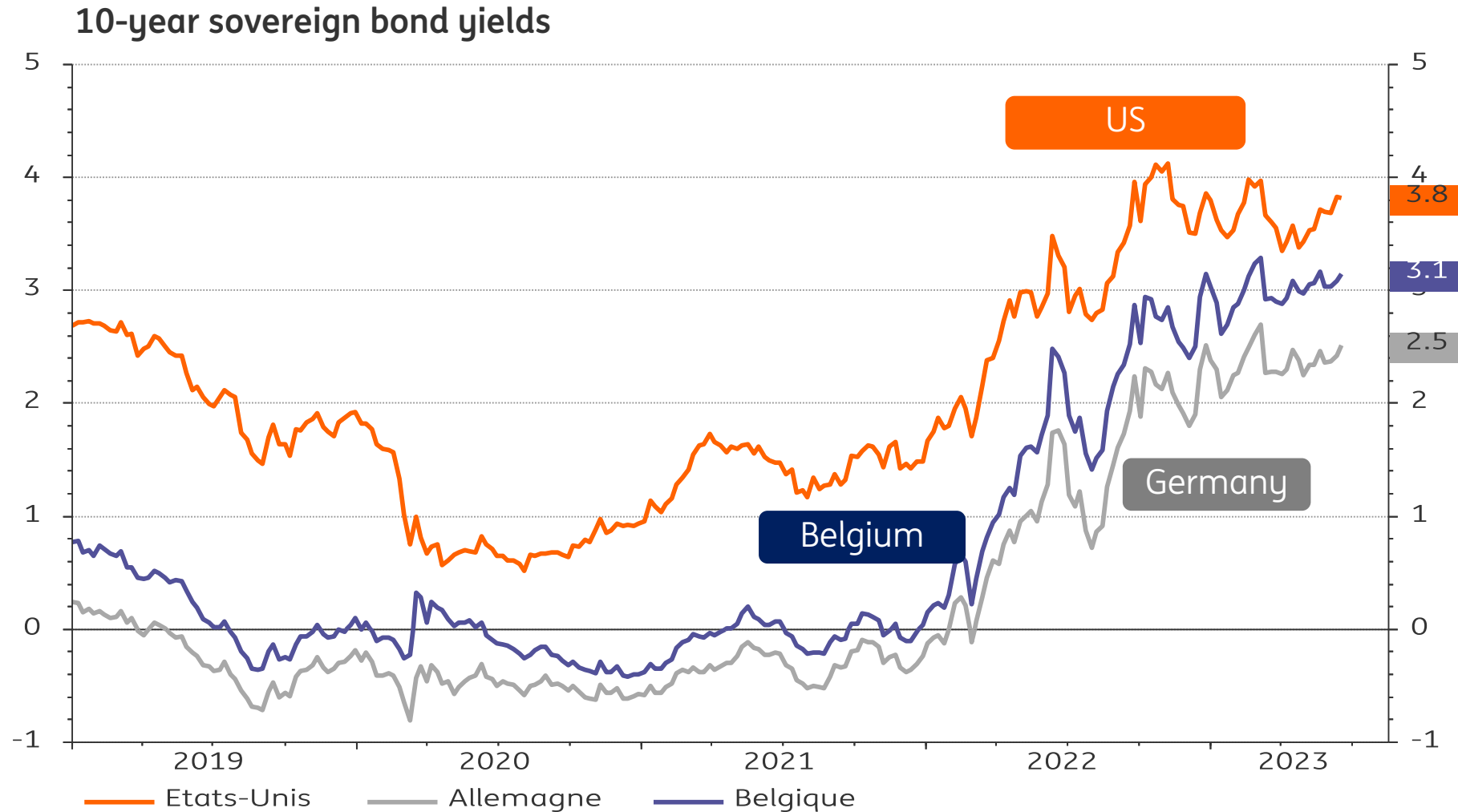


Source: Refinitiv Datastream, ING Economic Research

Short term interest rates approaching peak



Bond yields already hovering around peak...



Source: Refinitiv Datastream, ING Economic Research

...but equilibrium bond yield will remain slightly higher

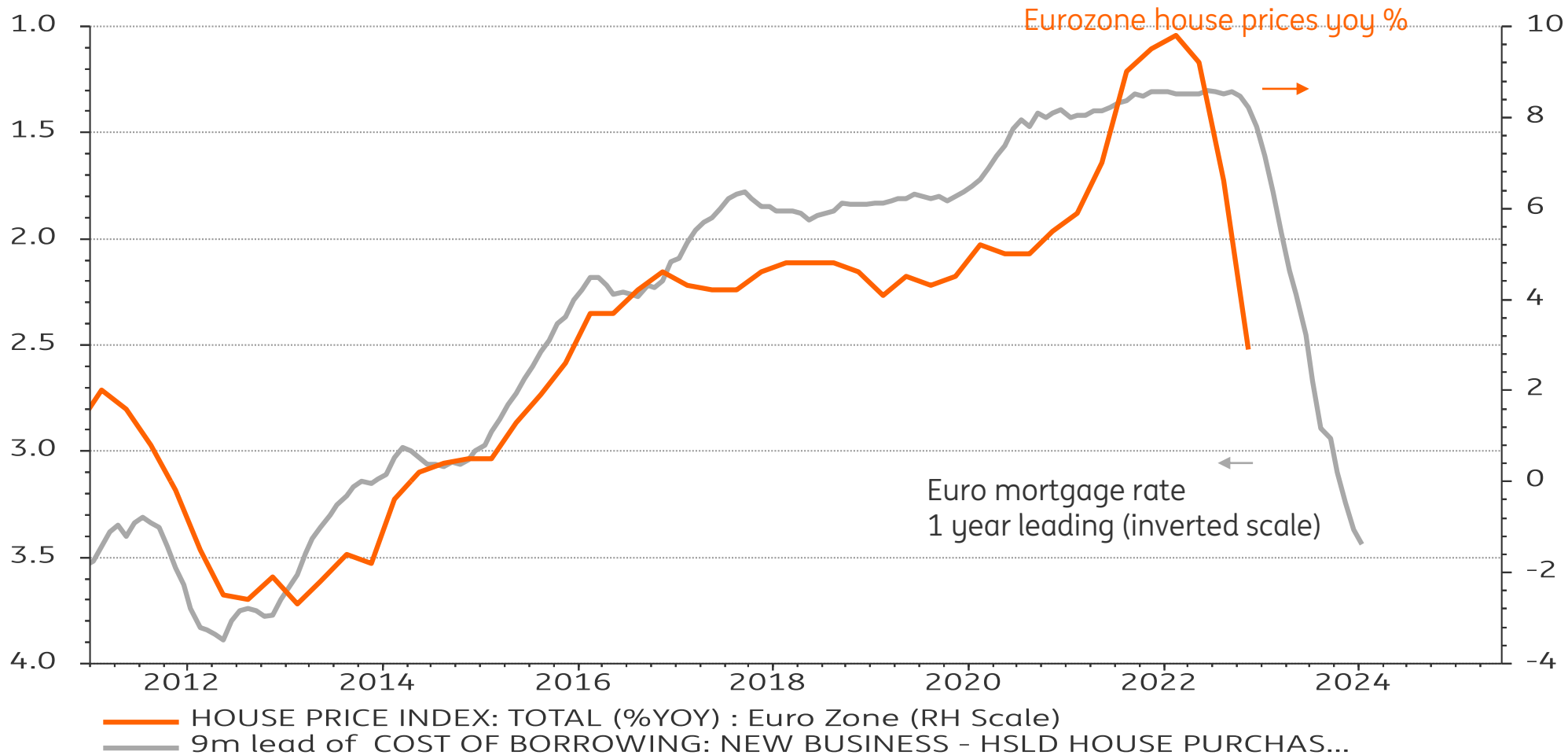
Structural inflation drivers:

- **Global warming:** could add 0.3 to 1.2 pp to yearly inflation
- **Transition to net zero:** could add 0.45pp to yearly inflation
- **Deglobalisation (friendshoring):** could add 0.75 to 3.9% to price level



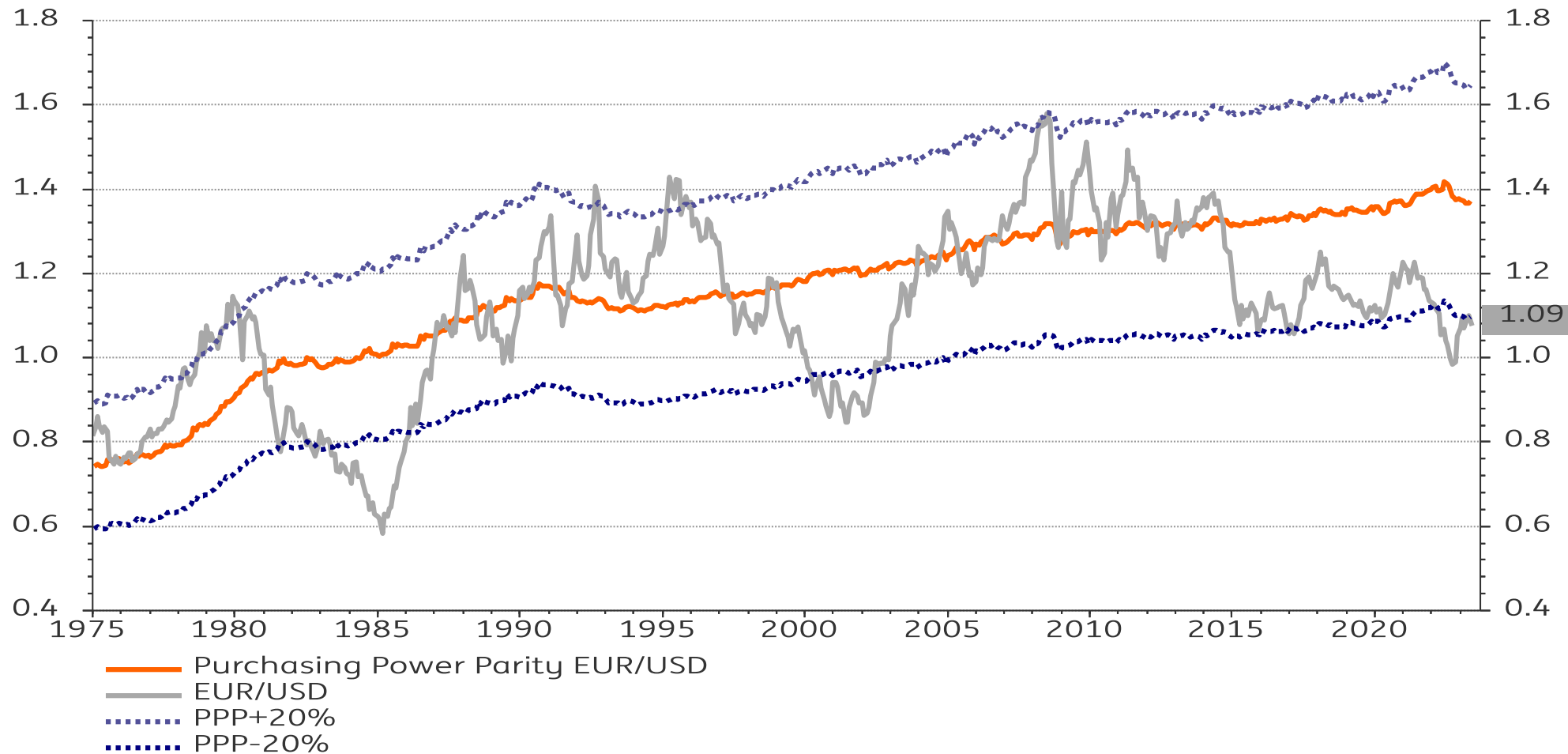
Source: Refinitiv Datastream, ING Economic Research

Higher interest rates will hurt real estate prices (and construction!)



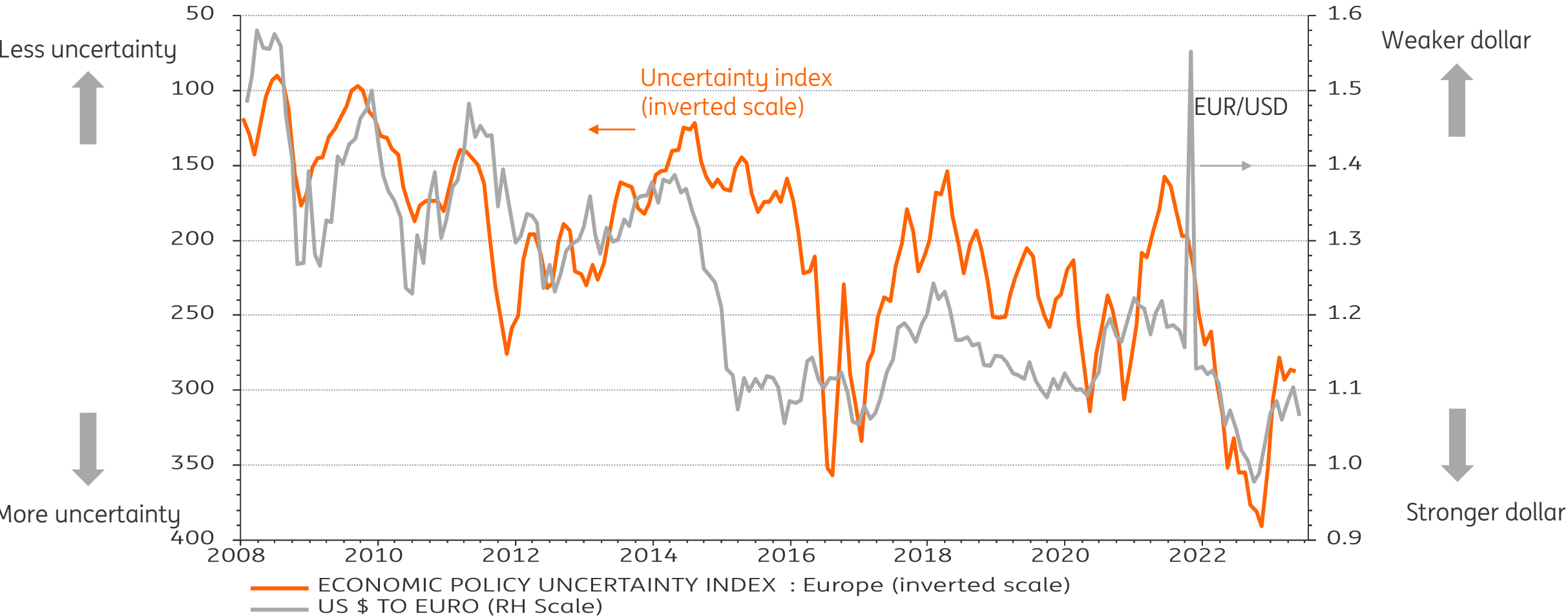
Source: Refinitiv Datastream, ING Economic Research

Dollar is still expensive...



Source: Refinitiv Datastream, ING Economic Research

...but uncertainty might temporarily support the greenback



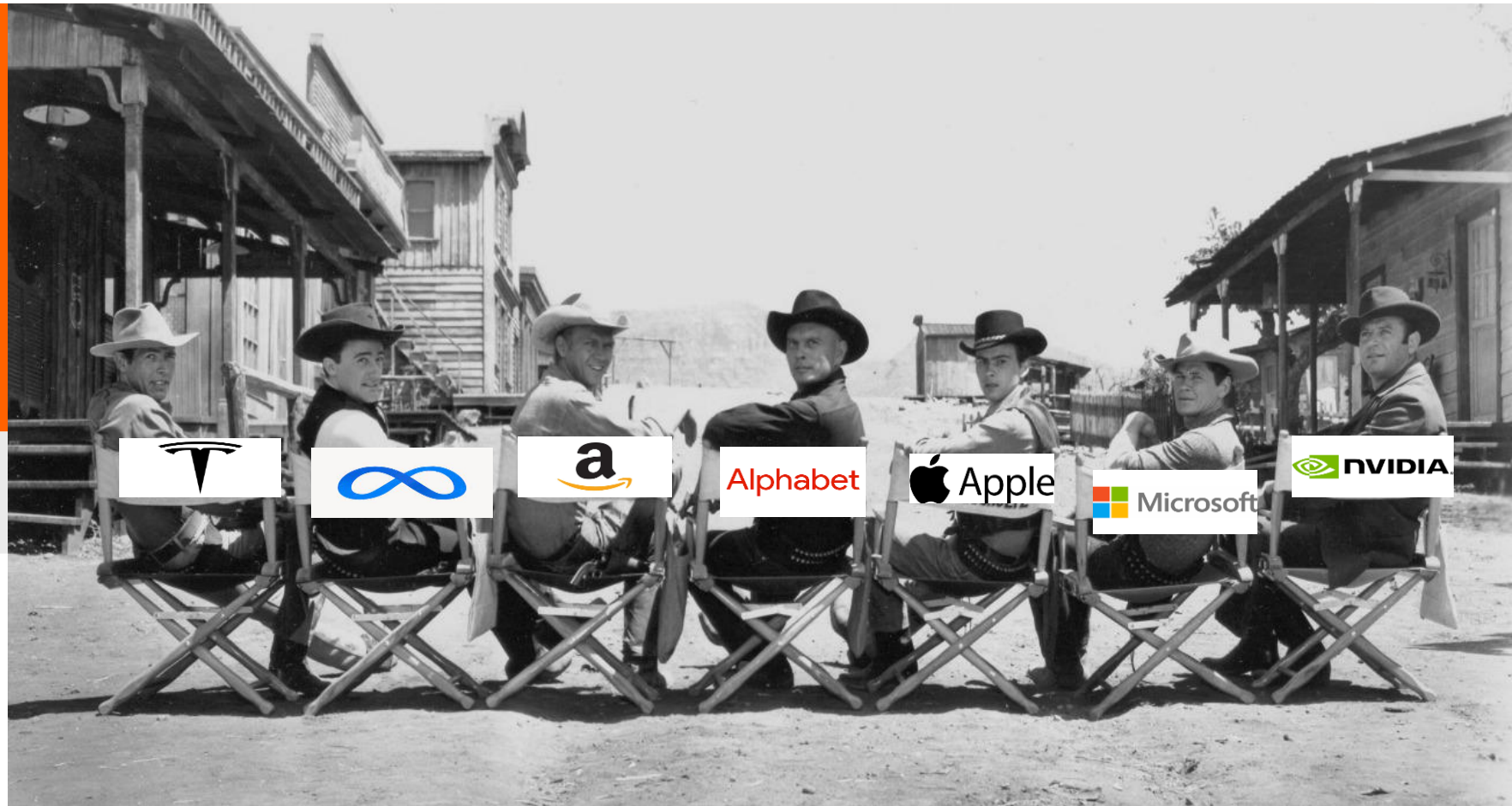
Source: Refinitiv Datastream, ING Economic Research

“The Return of the Magnificent Seven”

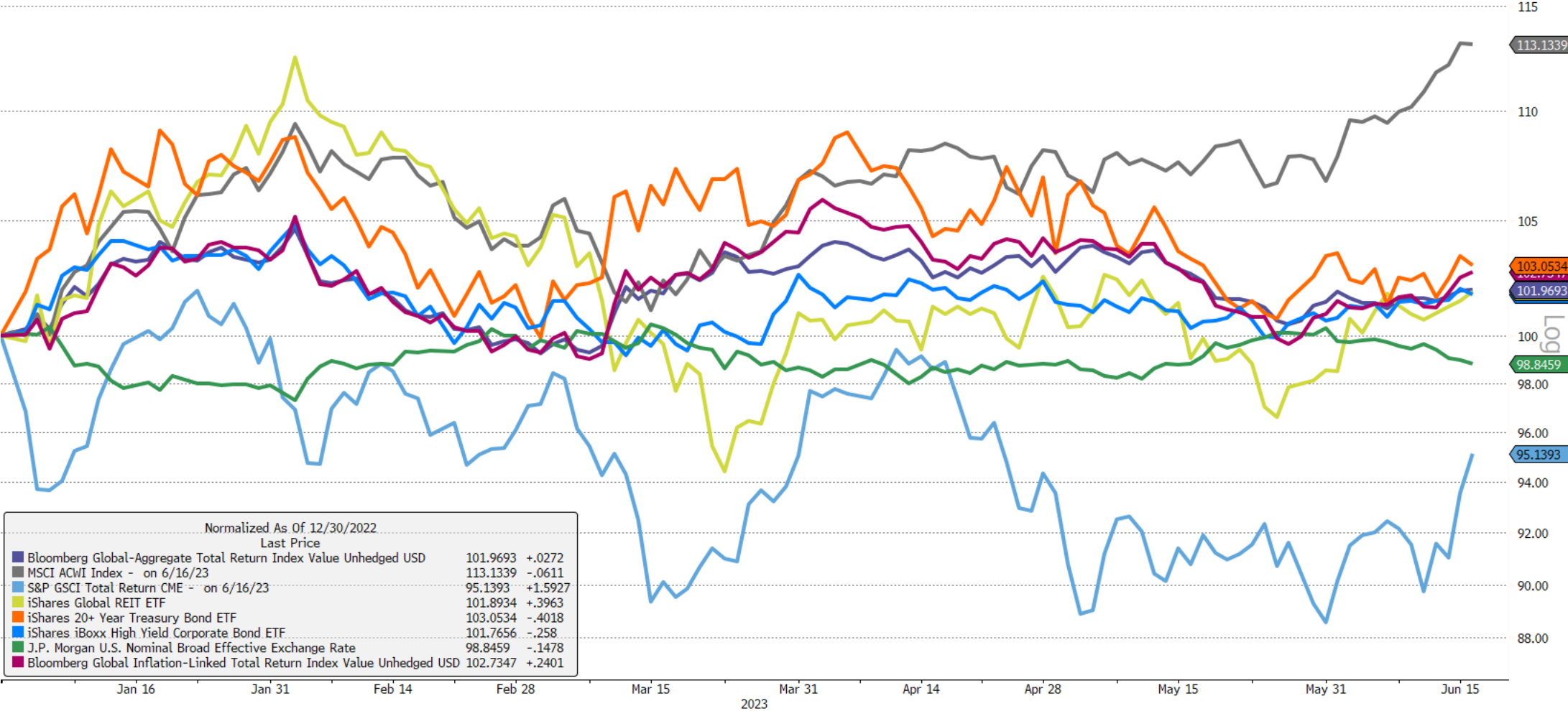
Steven Vandepitte
Strategist

June 21, 2023

thinkforward



Scores on the Doors



LEGATRUU Index (Bloomberg Global-Aggregate Total Return Index Value Unhedged USD) perf 5 com 18 +arkk Daily 30DEC2022-19JUN2023

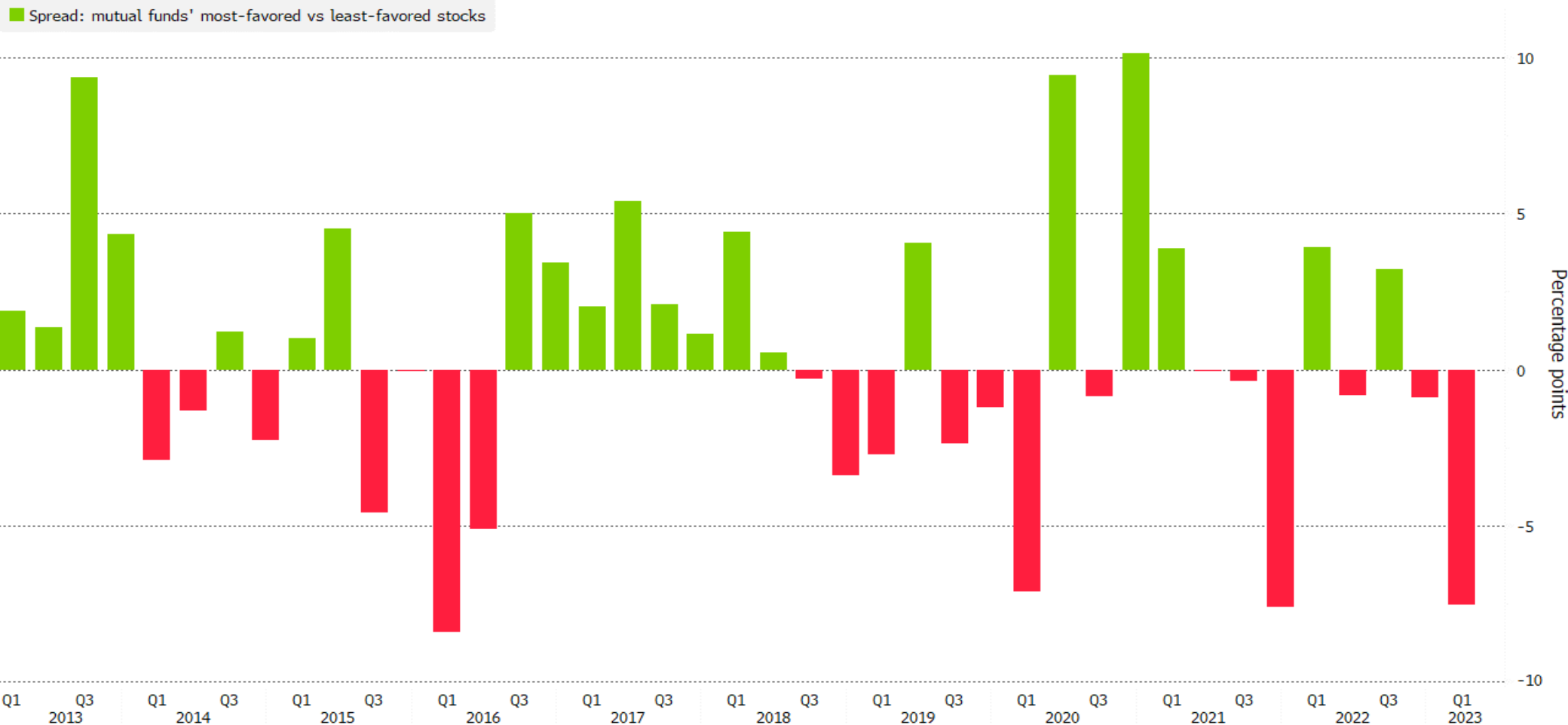
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Off on the wrong foot

Popular stocks trailed those least favored by a lot in the first quarter of 2023

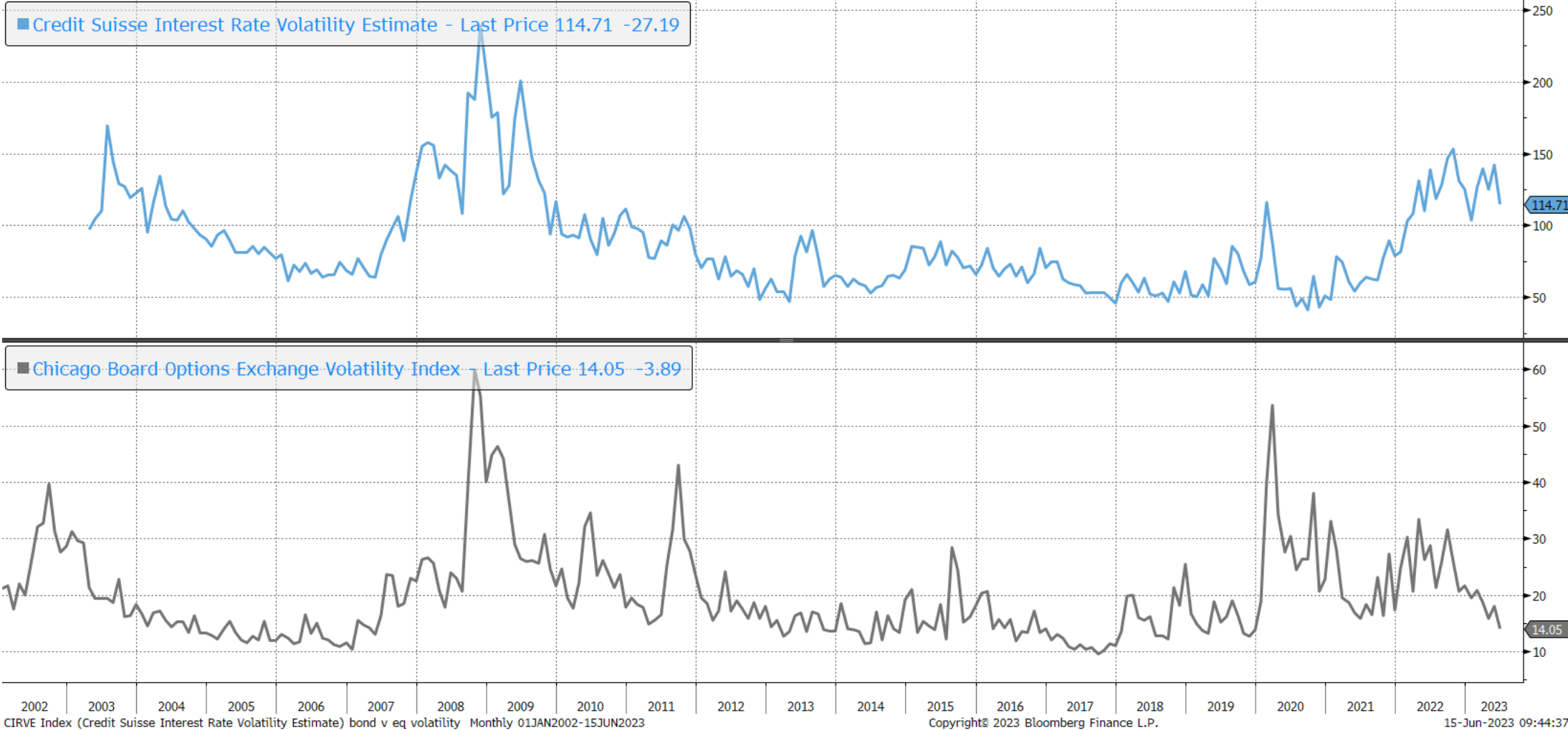


Source: Goldman Sachs
 GSTHMFOW Index (Mutual Fund OW (US)) mutual fund OW vs UW Quarterly 12APR1993-31MAR2023

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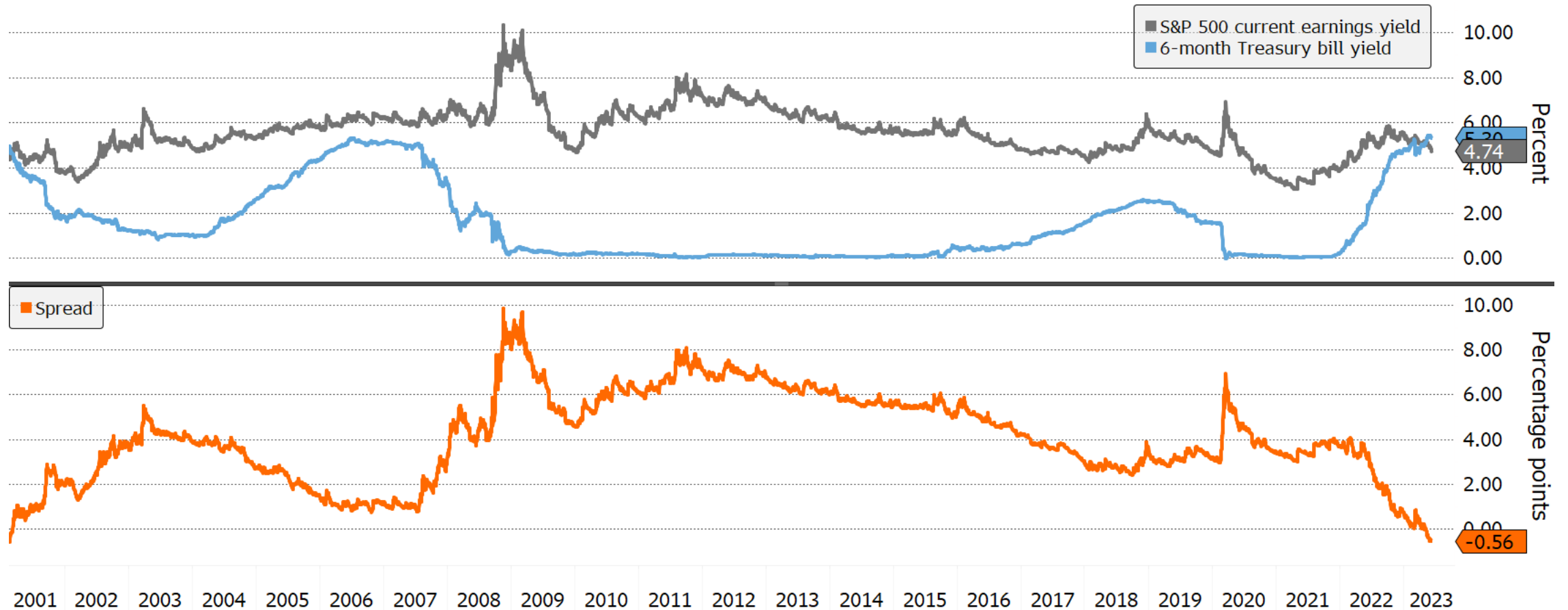
FI volatility unusually high for otherwise eerily quiet equity markets



Paid to be in cash temporarily

Treasury Bills vs. S&P 500 Earnings Yield

Cash earns slightly more than the S&P 500



Source: Bloomberg

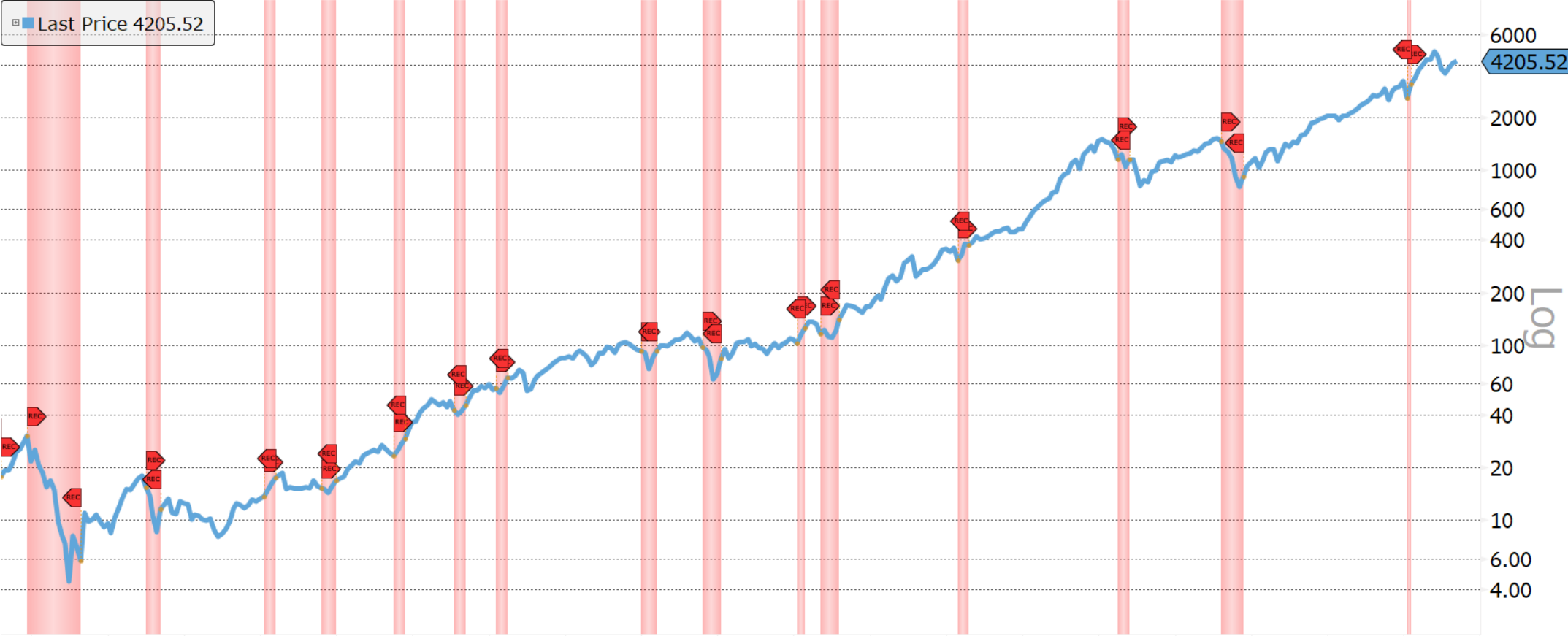
SPX Index (S&P 500 INDEX) 6mbills vs spx earnings Daily 15FEB2001-19JUN2023

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Ask ChatGPT : Have we seen the bottom for this cycle?

S&P 500 Never Bottoms Before Recession Going back 100 years



SPX Index (S&P 500 INDEX) spx recession Quarterly 01JAN1926-31MAY2023

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Which regime are we in

Table 2: Sell the last rate hike

Dow Jones returns after last Fed rate hike in a cycle

Date of last Fed hike	Fed Funds %	Dow Jones return post-hike	
		3-mo	6-mo
5/1/1974	13.0%	(10.3%)	(22.8%)
3/3/1980	20.0%	(0.4%)	9.2%
5/8/1981	20.0%	(2.4%)	(12.0%)
1/4/1982	15.0%	(5.0%)	(9.7%)
8/21/1984	11.75%	(4.4%)	3.4%
Average return - inflationary period		(4.5%)	(6.4%)
2/24/1989	9.75%	10.6%	21.8%
2/1/1995	6.0%	12.5%	22.2%
5/16/2000	6.5%	2.2%	(3.8%)
6/29/2006	5.25%	4.5%	11.8%
12/19/2018	2.375%	11.0%	13.5%
Average return - disinflationary period		8.1%	13.1%

Source: BofA Global Investment Strategy, Bloomberg

BofA GLOBAL RESEARCH

When and where have I seen this movie before?

Gap between US IT and the rest of the market has never been so wide since 2000 !



Market breadth is weak, but historic figures provide no clear near term implications

% contribution to index
the rally *

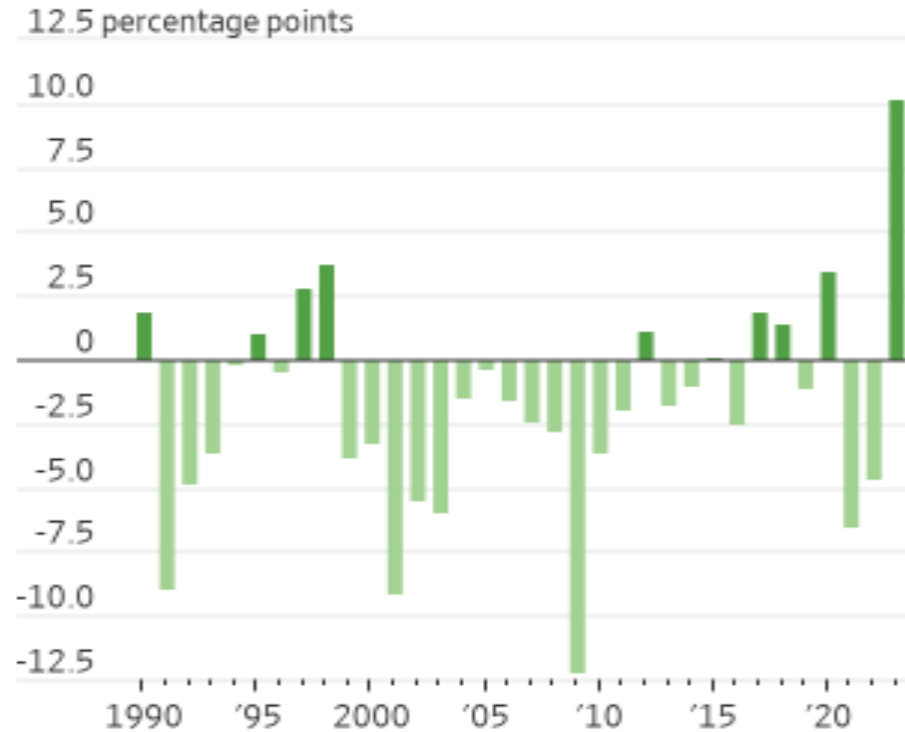


	Name	End Prc	% Chg	Points	%Idx Mv
1.	Apple Inc	179.58	+38.62%	+89.282	+20.56%
2.	Microsoft Corp	335.94	+40.74%	+86.687	+19.96%
3.	NVIDIA Corp	391.71	+168.08%	+72.631	+16.72%
4.	Amazon.com Inc	125.30	+49.17%	+43.948	+10.12%
5.	Meta Platforms Inc	271.39	+125.52%	+40.403	+9.30%
6.	Tesla Inc	217.61	+76.66%	+30.320	+6.98%
7.	Alphabet Inc	126.01	+42.82%	+26.927	+6.20%
8.	Alphabet Inc	126.63	+42.71%	+23.692	+5.46%

*Bloomberg figures through June 5th 2023

What goes up must eventually come down

S&P 500's performance vs. equal-weight counterpart, year-to-date



Note: Figures are through June 5 of each year.

Source: Dow Jones Market Data

Valuations are generally not cheap

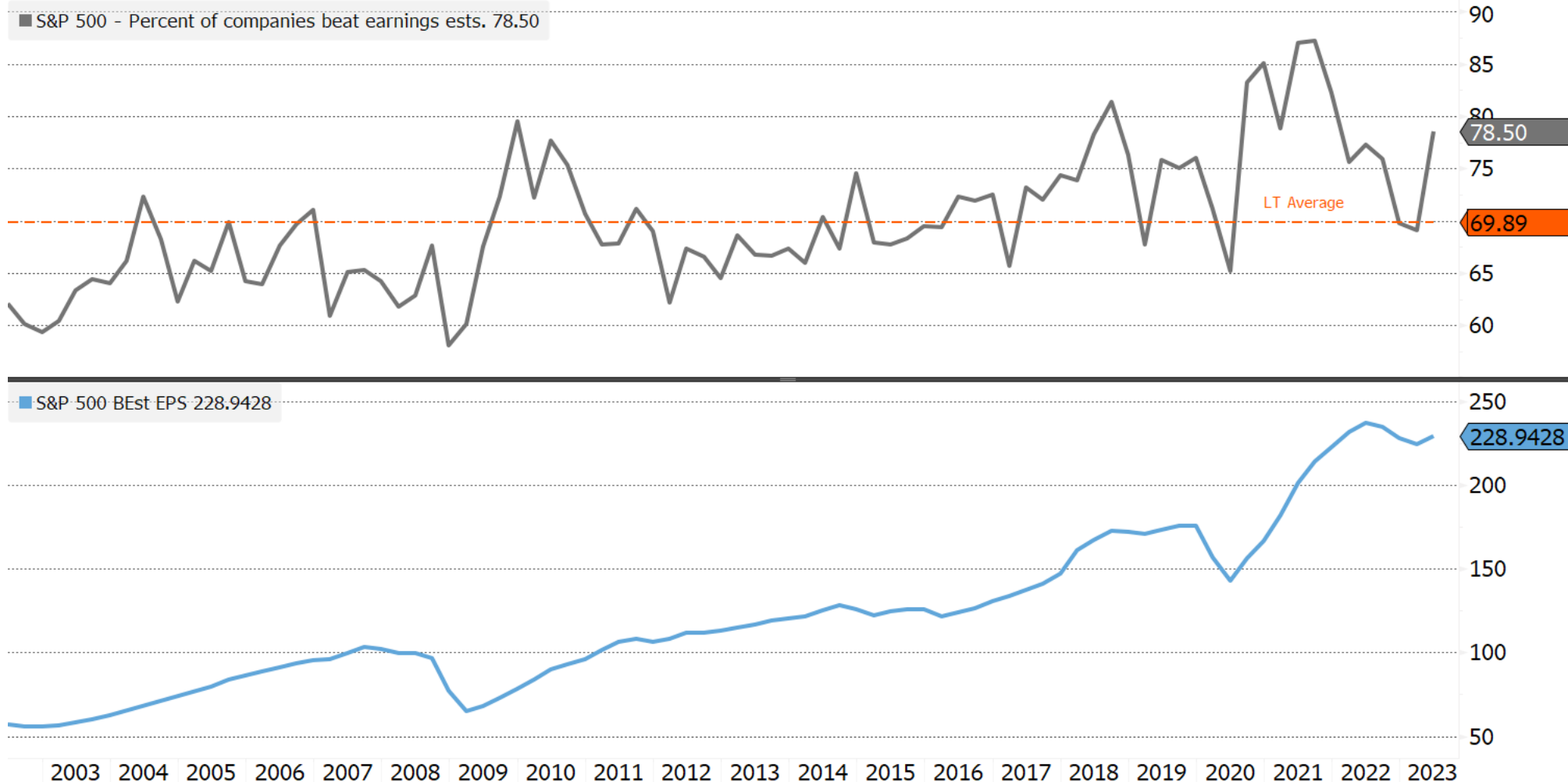


Source: Refinitiv Datastream, ING Investment Office



Source: Refinitiv Datastream, ING Investment Office

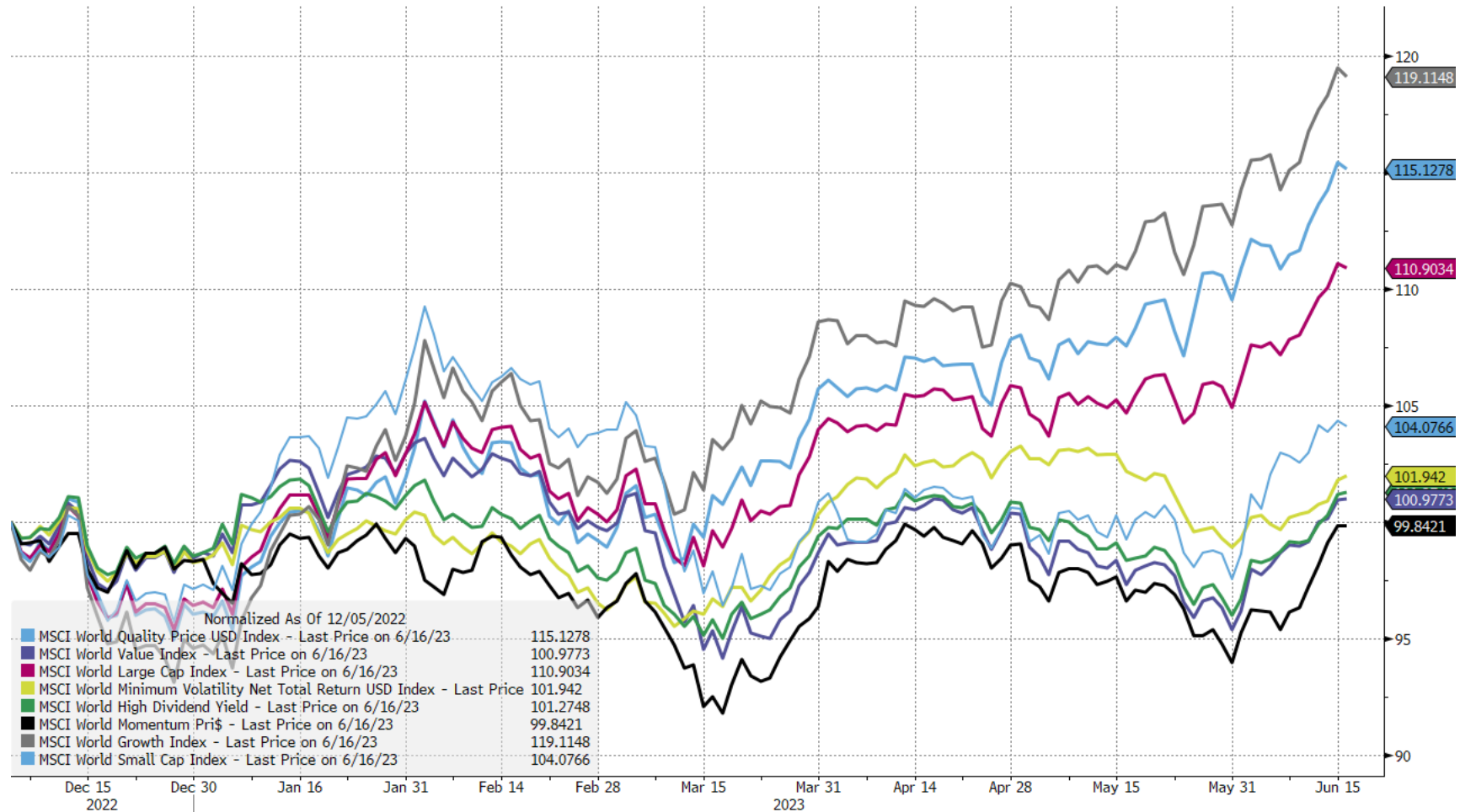
Earnings have rebounded, but is it the beginning of a trend?



SPEDPOSS Index (S&P 500 Index Positive Surprises Based on Rounded Figures) SPX Beats (rounded figs) Quarterly 28JUN2002-15JUN2023 Copyright© 2023 Bloomberg Finance L.P. 15-Jun-2023 09:48:32

Factors to watch : Large Cap Quality, Growth

Evolution of investment styles



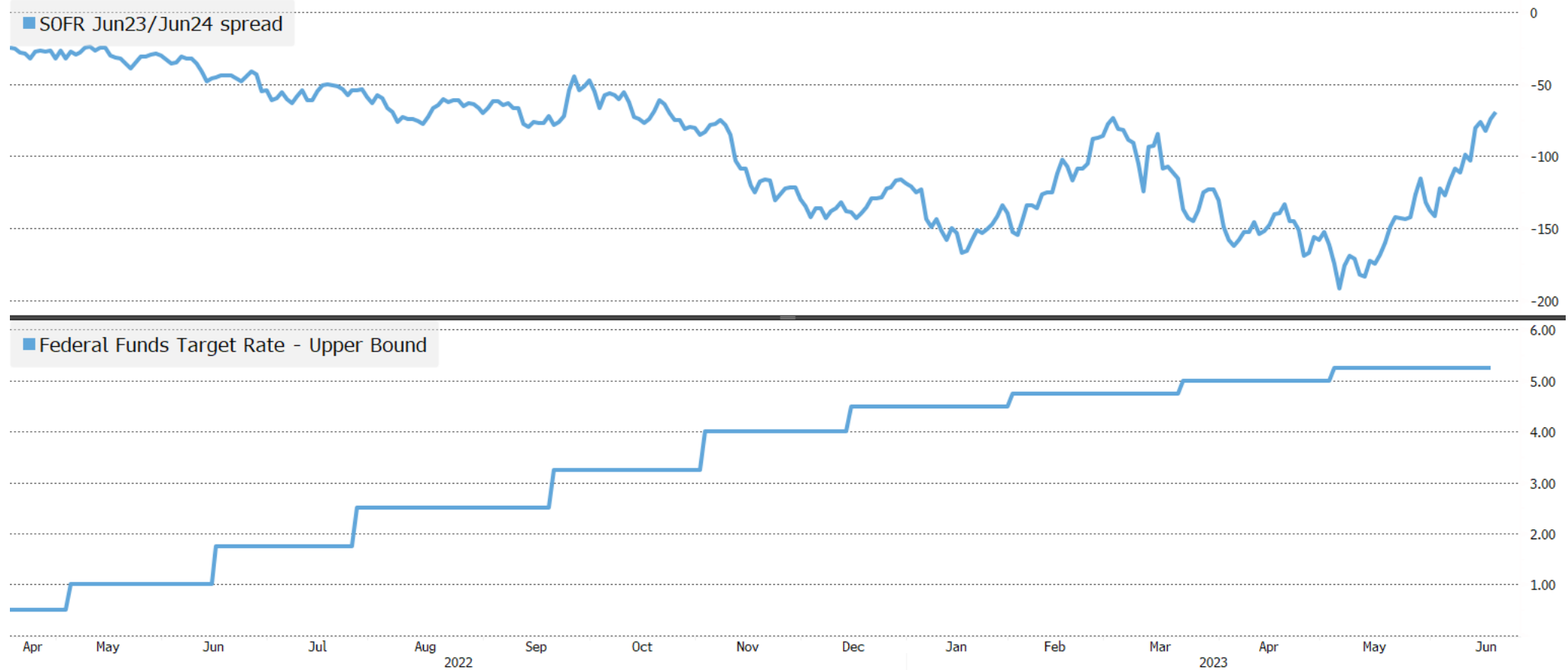
MXWOQU Index (MSCI World Quality Price USD Index) quality 21 Daily 05DEC2022-19JUN2023

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Fed speak (“on hold for longer”) versus money markets

75 bps of cuts over 12 months



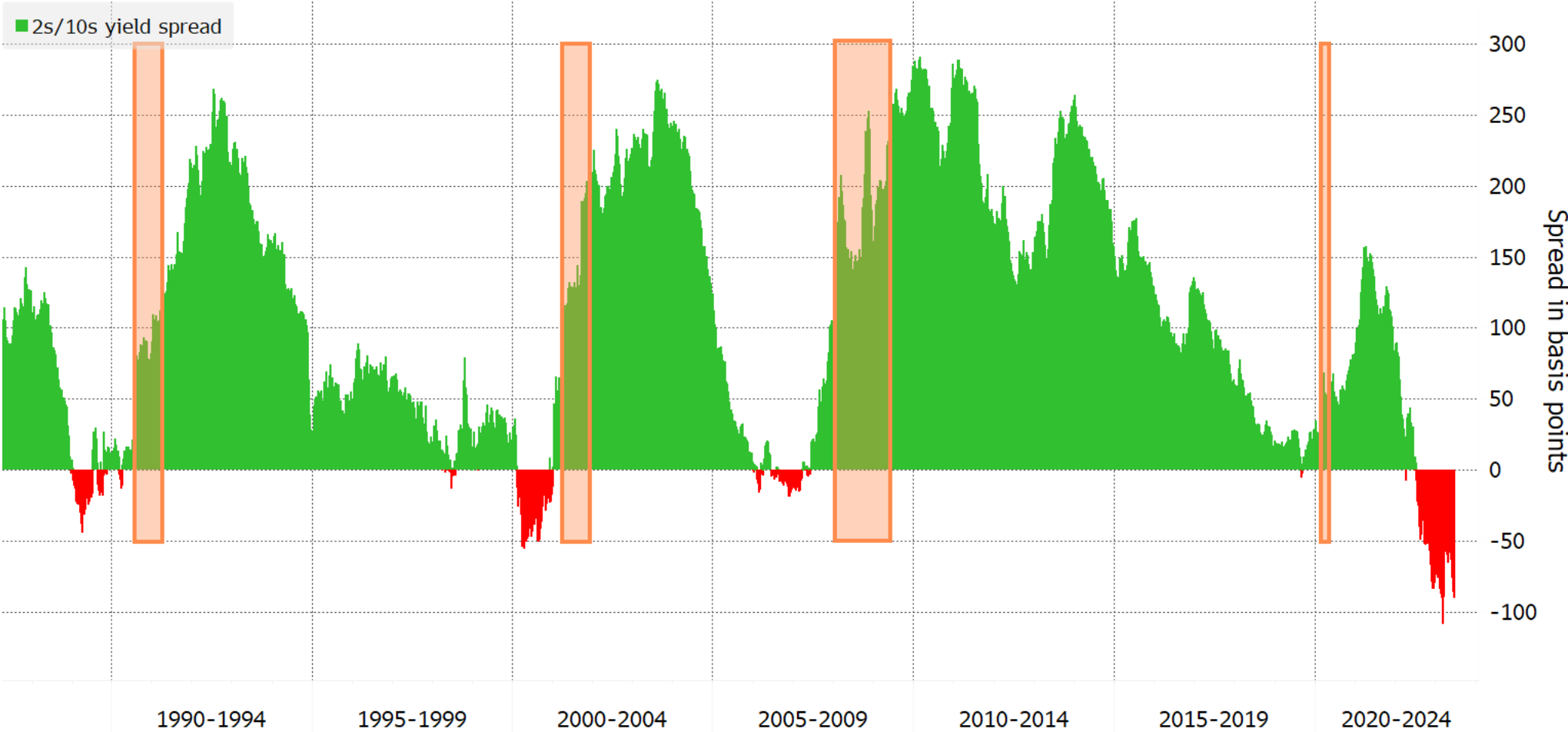
Source: Bloomberg

SFRU3U4 Comdty (3 MONTH SOFR SPD U3-U4) SOFR Sep23/24 +FF Daily 18APR2022-19JUN2023

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Yield curve expected to disinvert once closer to the R-word

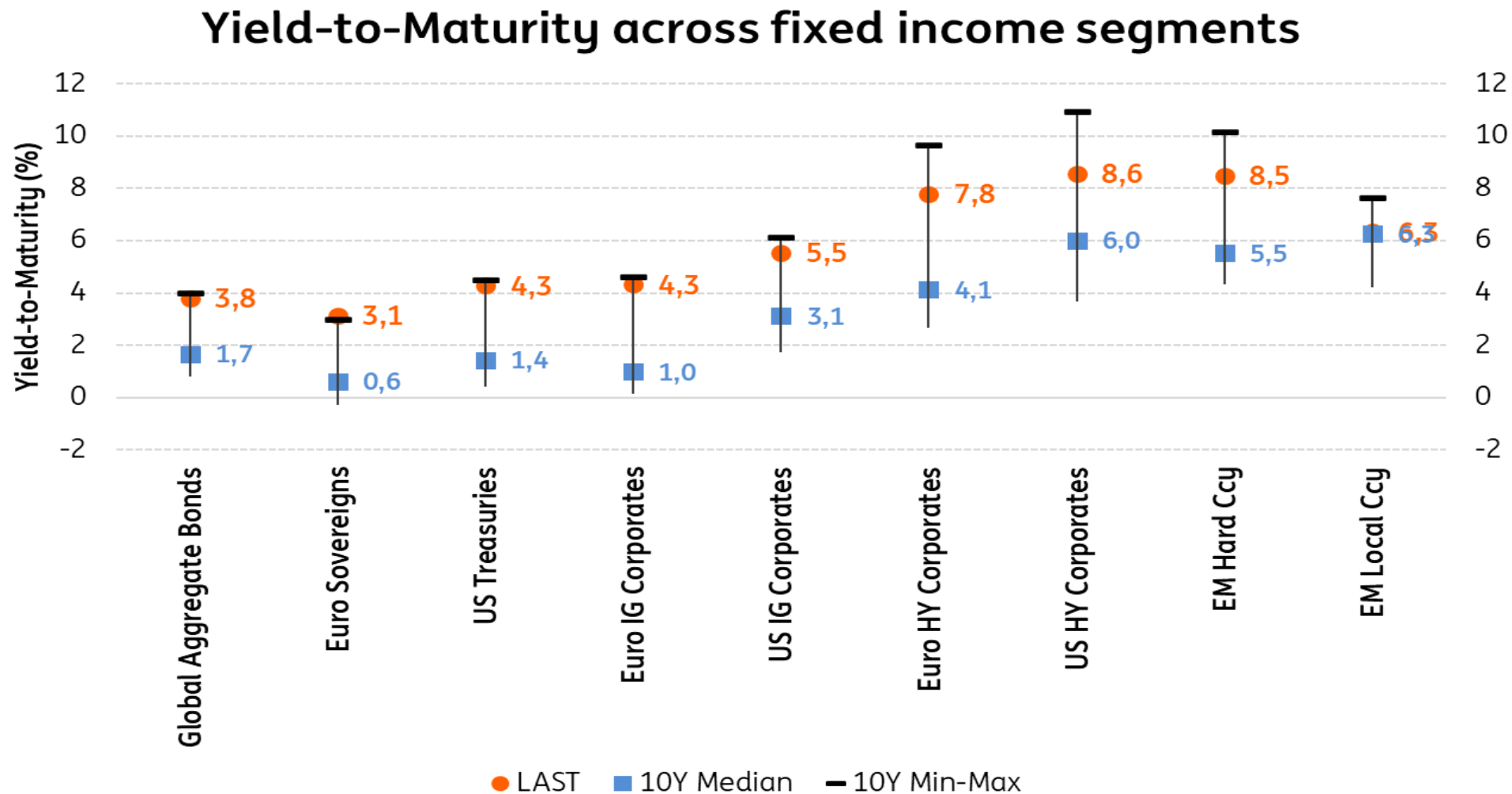


Source: Bloomberg
USVC2Y10 Index (Market Matrix US Sell 2 Year & Buy 10 Year Bond Yield Spread) Flatter curves 2/10s Daily 30MAR1987-15JUN2023

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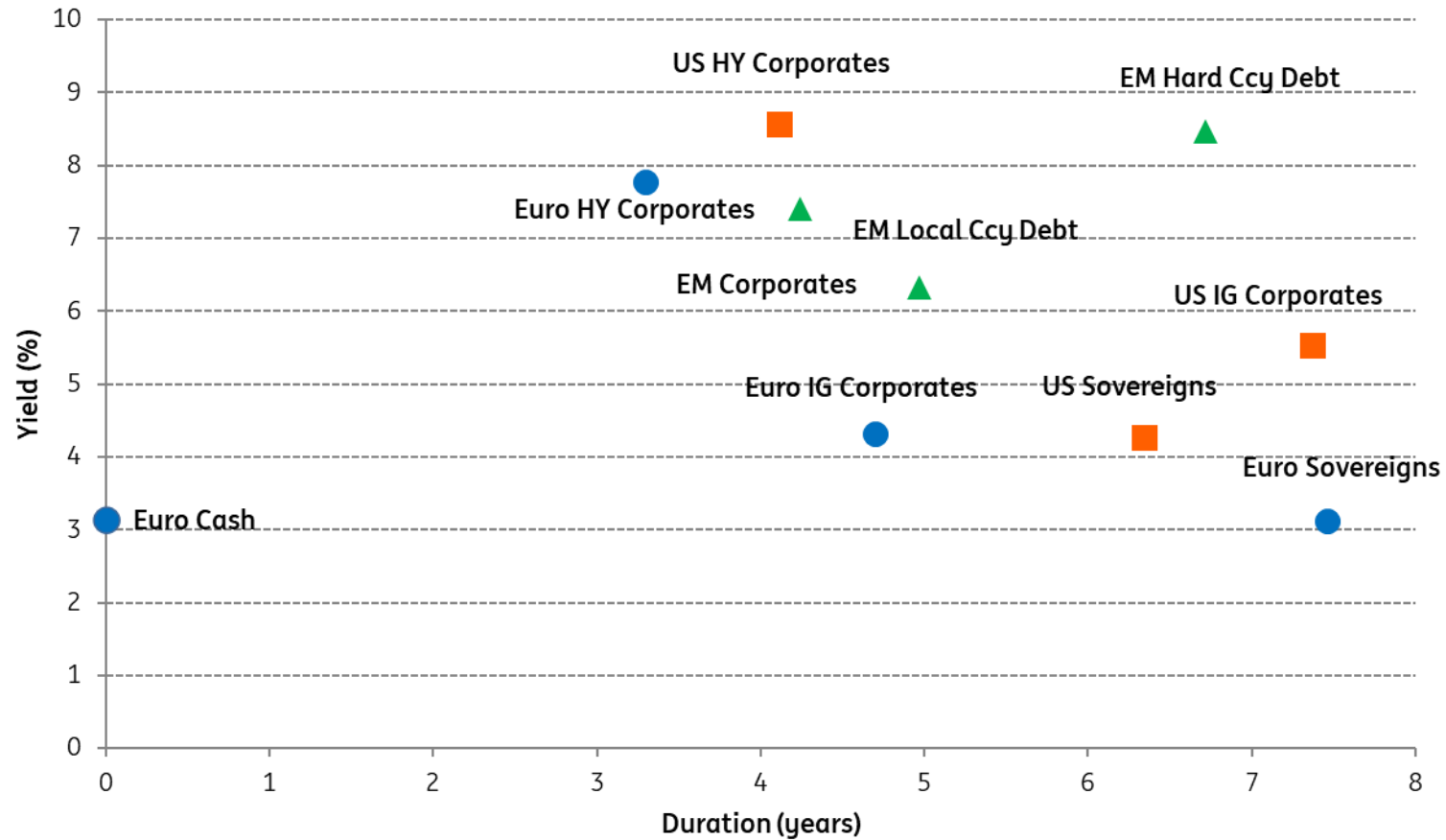
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“Quality” bonds are offering historically attractive yields, making shorts expensive

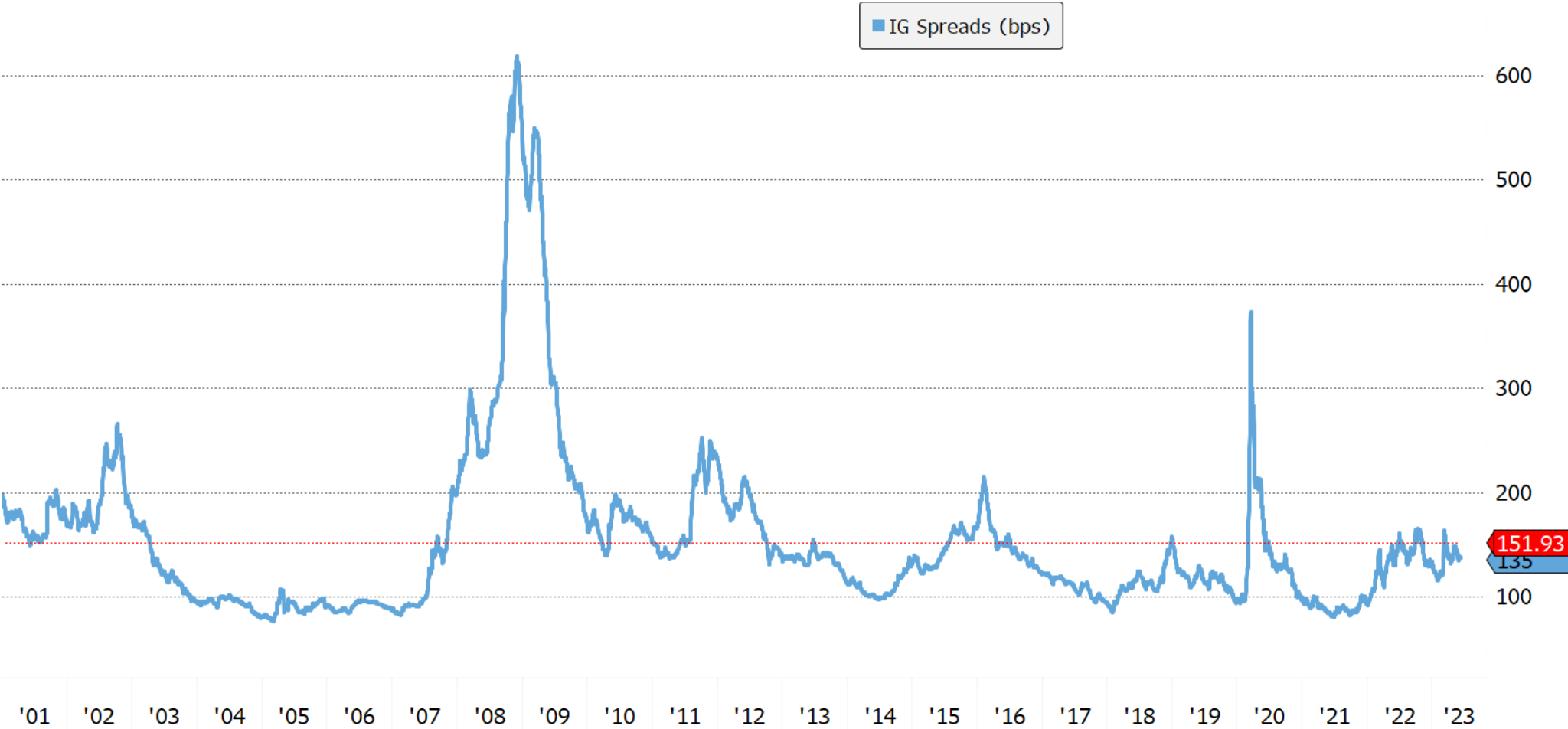


Euro IG is higher yielding AND lower duration

Yield & Duration of Bond Assets



IG spreads are close to the LT average



Source: Bloomberg
LUACOAS Index (Bloomberg US Agg Corporate Avg OAS) US IG spreads LT avg Daily 02JAN2001-14JUN2023

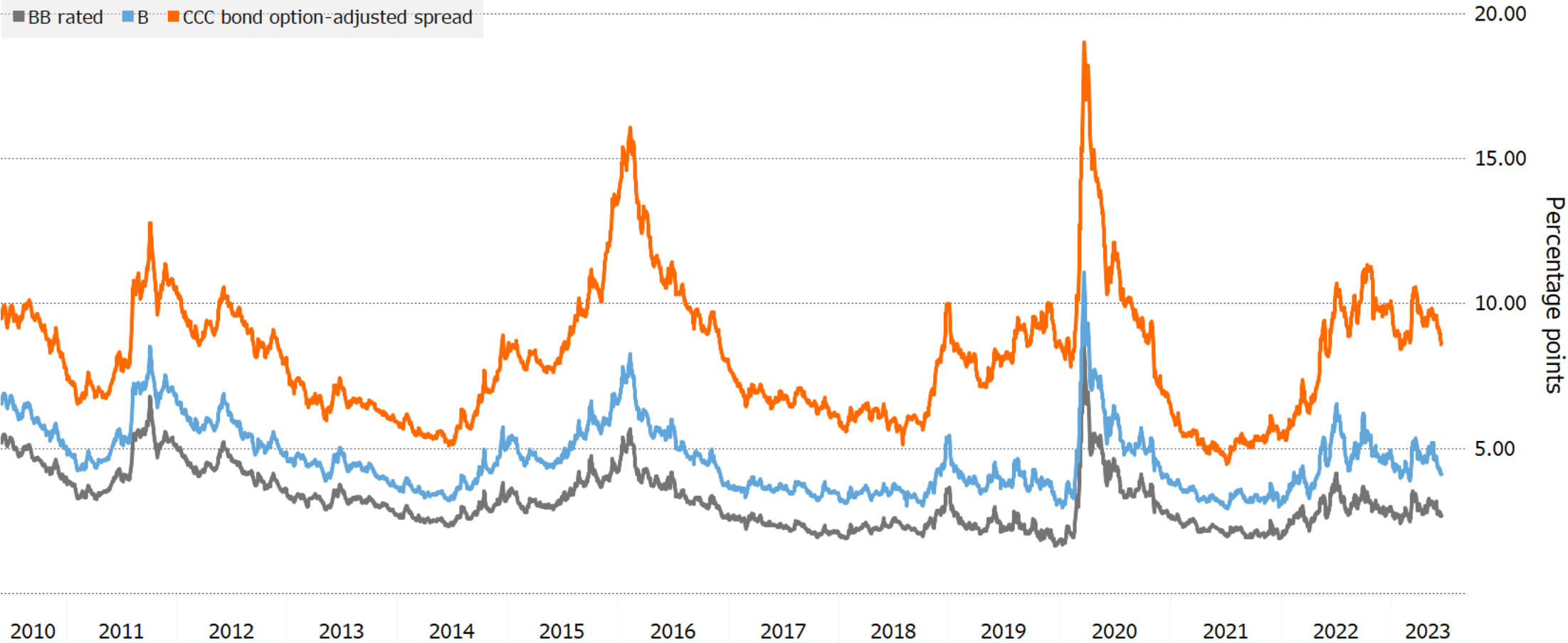
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The long and variable lags are just about to start biting.

Riskiest US Junk Bond Spreads have risen already



Source: Bloomberg

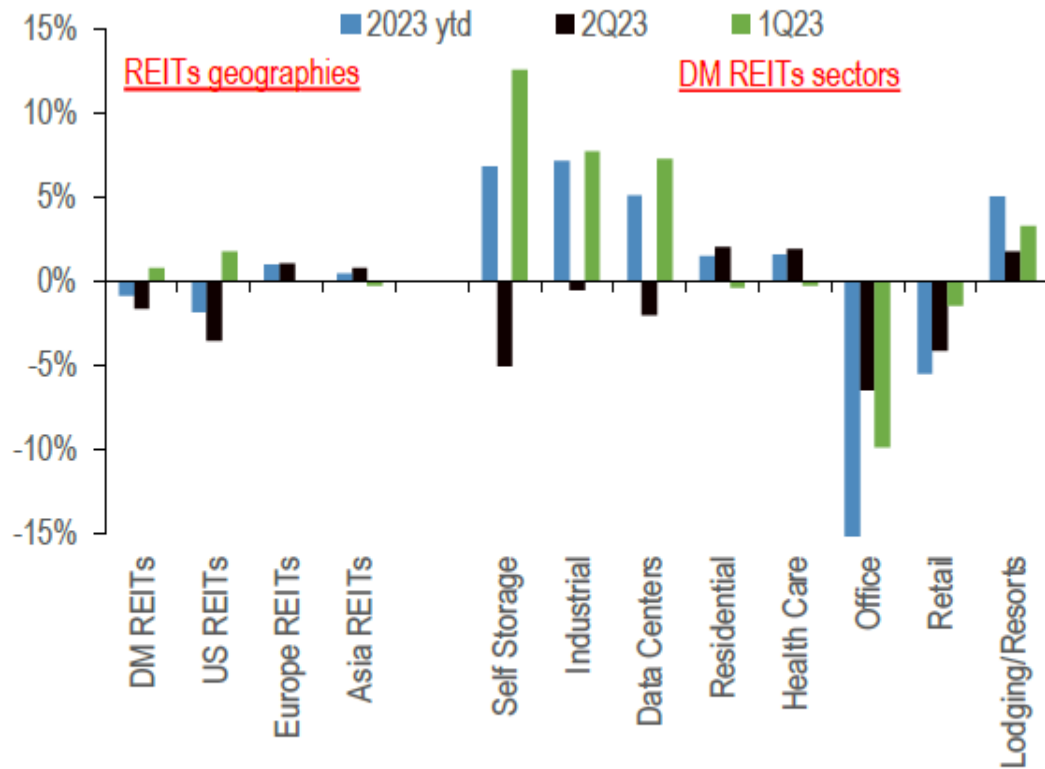
100182US Index (Bloomberg Ba US High Yield TR Index Value Unhedged USD) US HY CCC B BB Daily 31MAY2010-19JUN2023

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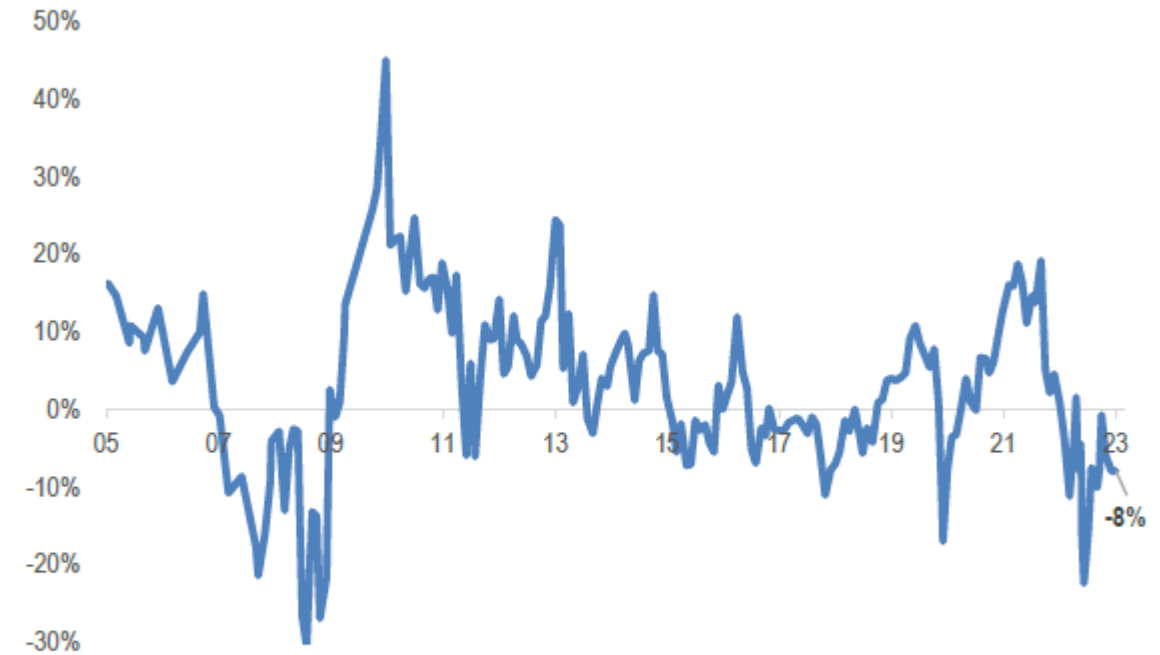
REITs have lagged equity markets, showing value

Total return for REITs (geographies and sectors)



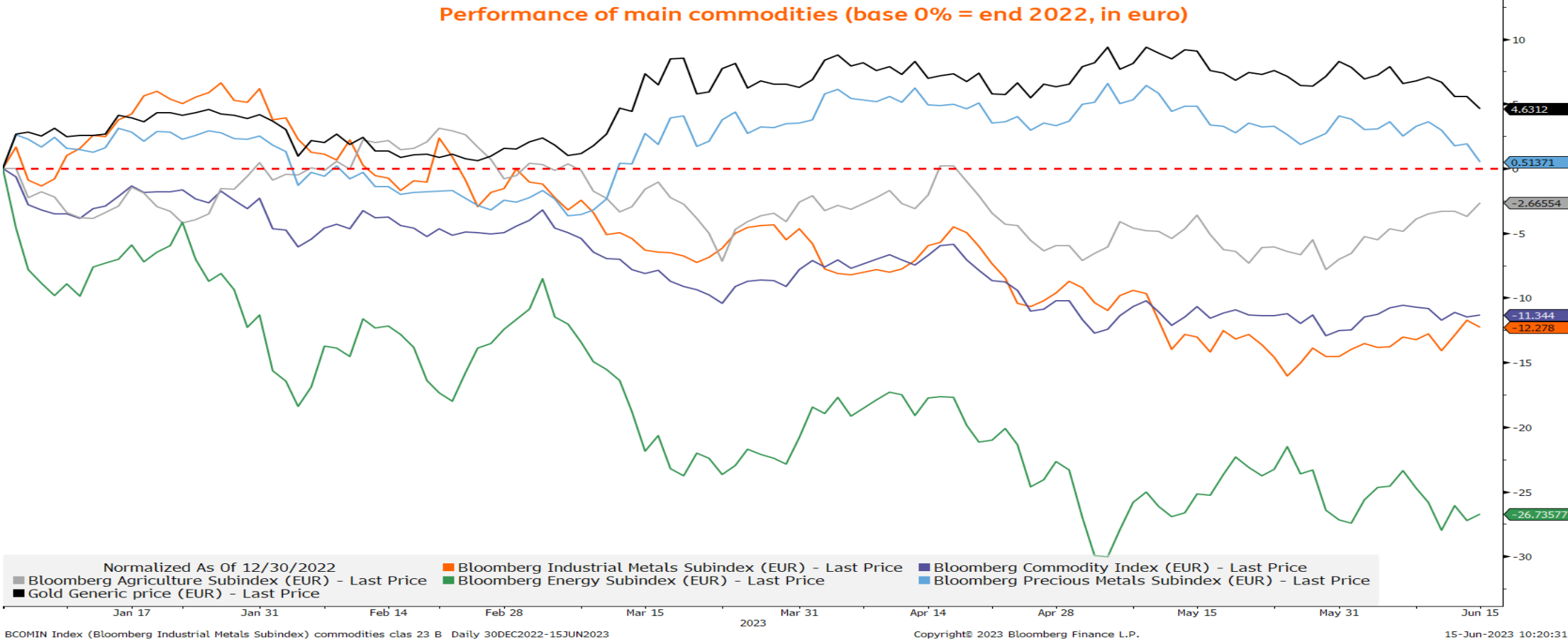
Source: J.P. Morgan

Premium/Discount to NAV for public REITs. Last observation April 2023



Source: J.P. Morgan

Commodities more exposed to cyclical whims have underperformed



Overview of current allocation

■ 23/05/2023
 ■ Previous allocation

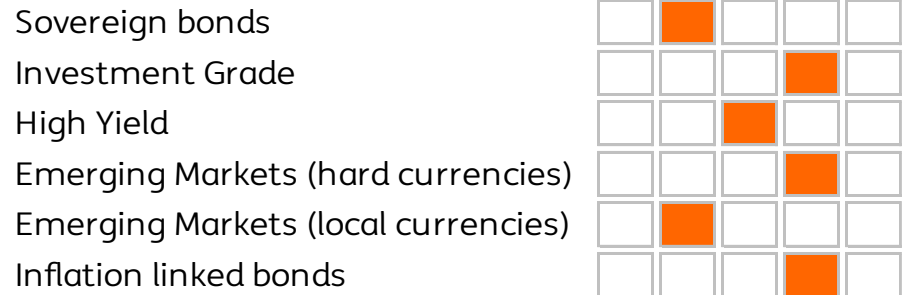
Asset Allocation



Regional Allocation



Bonds Allocation

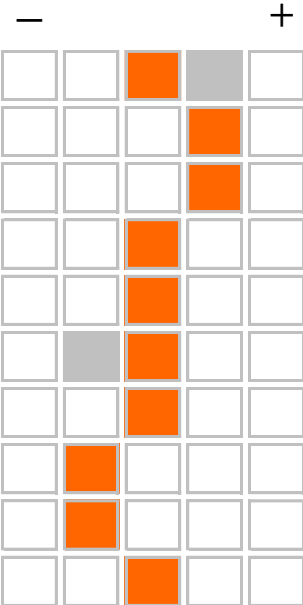


Sector allocation :

23/05/2023
 Previous allocation

Sector Allocation Europe

- Financials
- Information technology
- Communication services
- Durable consumer goods
- Healthcare
- Utilities
- Energy
- Materials
- Industrial goods
- Daily consumer goods



Sector Allocation US

- Financials
- Information technology
- Communication services
- Durable consumer goods
- Healthcare
- Utilities
- Energy
- Materials
- Industrial goods
- Daily consumer goods



Key takeaways

- Markets can remain irrational longer than the average investor can stay liquid : be pragmatic
- TINA no more as cash is a viable investment for the short term
- Poor market breadth isn't necessarily a precursor to a rally's imminent demise.
- Mixed news is good enough news for risk assets which explains our middle of the road asset allocation
- The timing of a Fed pivot AND the reason behind it will determine the path of bond and equity prices in the latter half of the year

Q&A





do your thing

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