



H2 2025 Economic and Financial Outlook: Looking through the darkness

Peter Vanden Houte (Chief Economist) and Vincent Juvyns (Chief Strategist)

June 2025



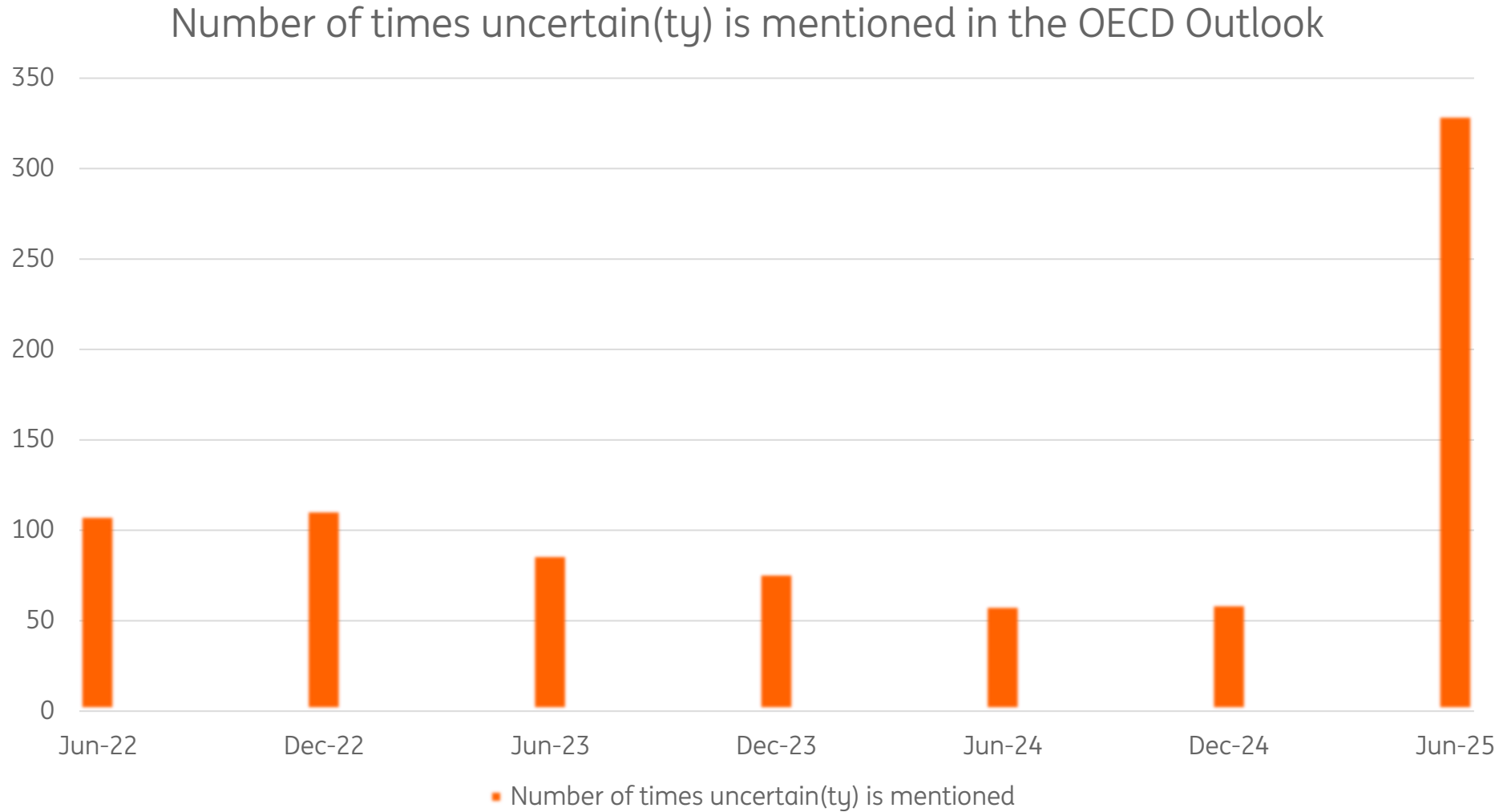
**Economic Outlook:
Uncertainty remains very high**



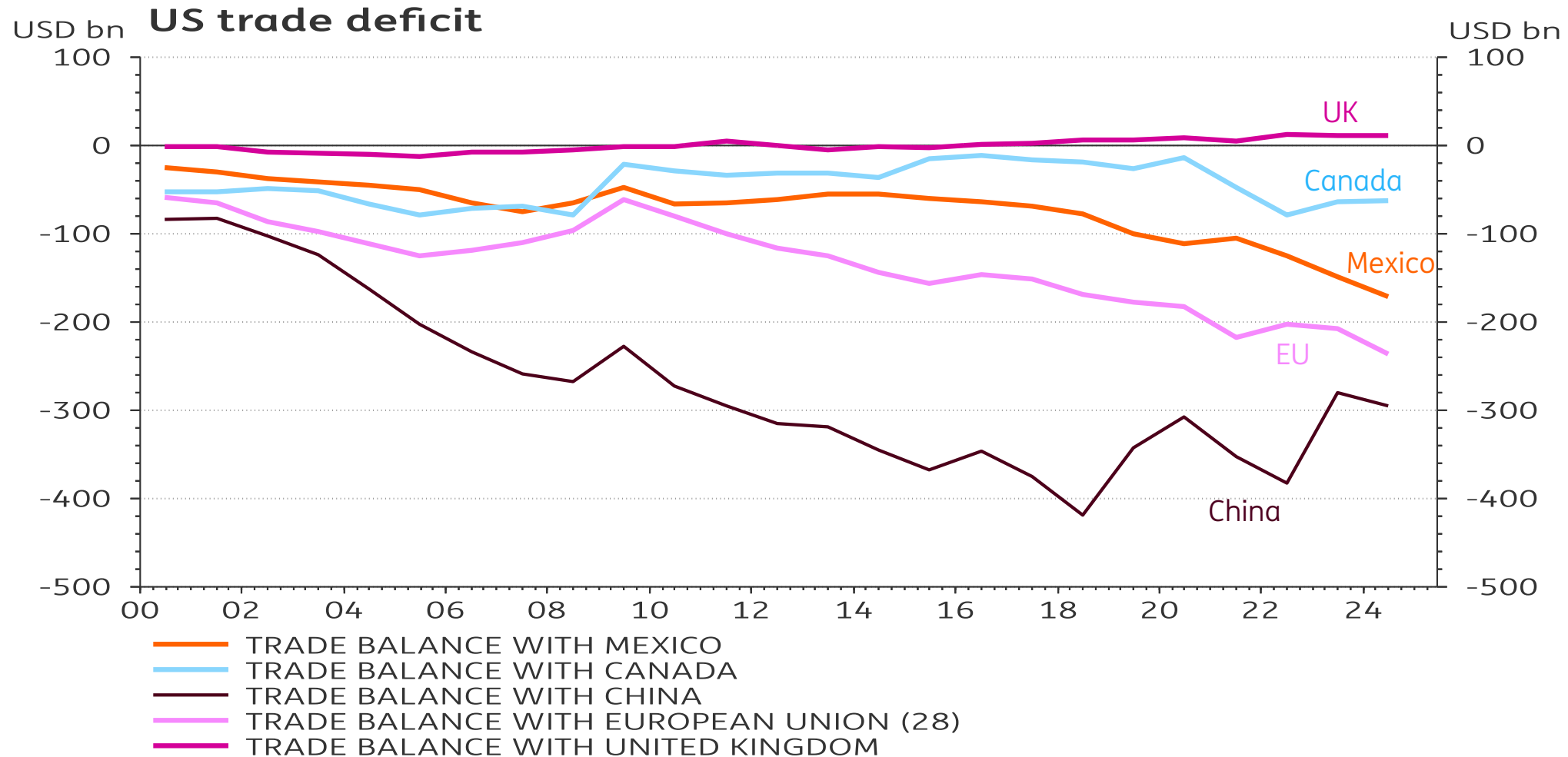
June 2025

Peter Vanden Houte / Chief Economist

Uncertainty remains very high



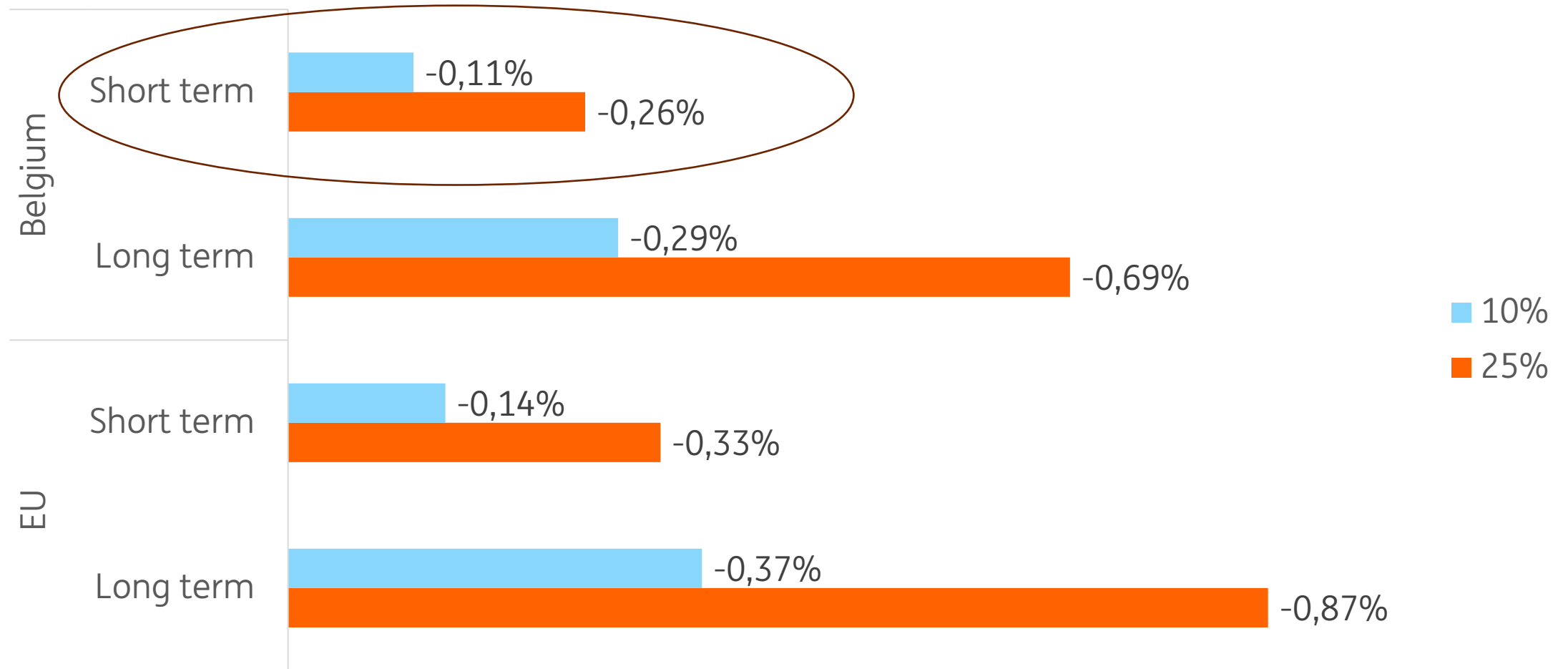
Europe is likely to face at least 10% US import tariffs



Source: LSEG Datastream, ING Economic Research

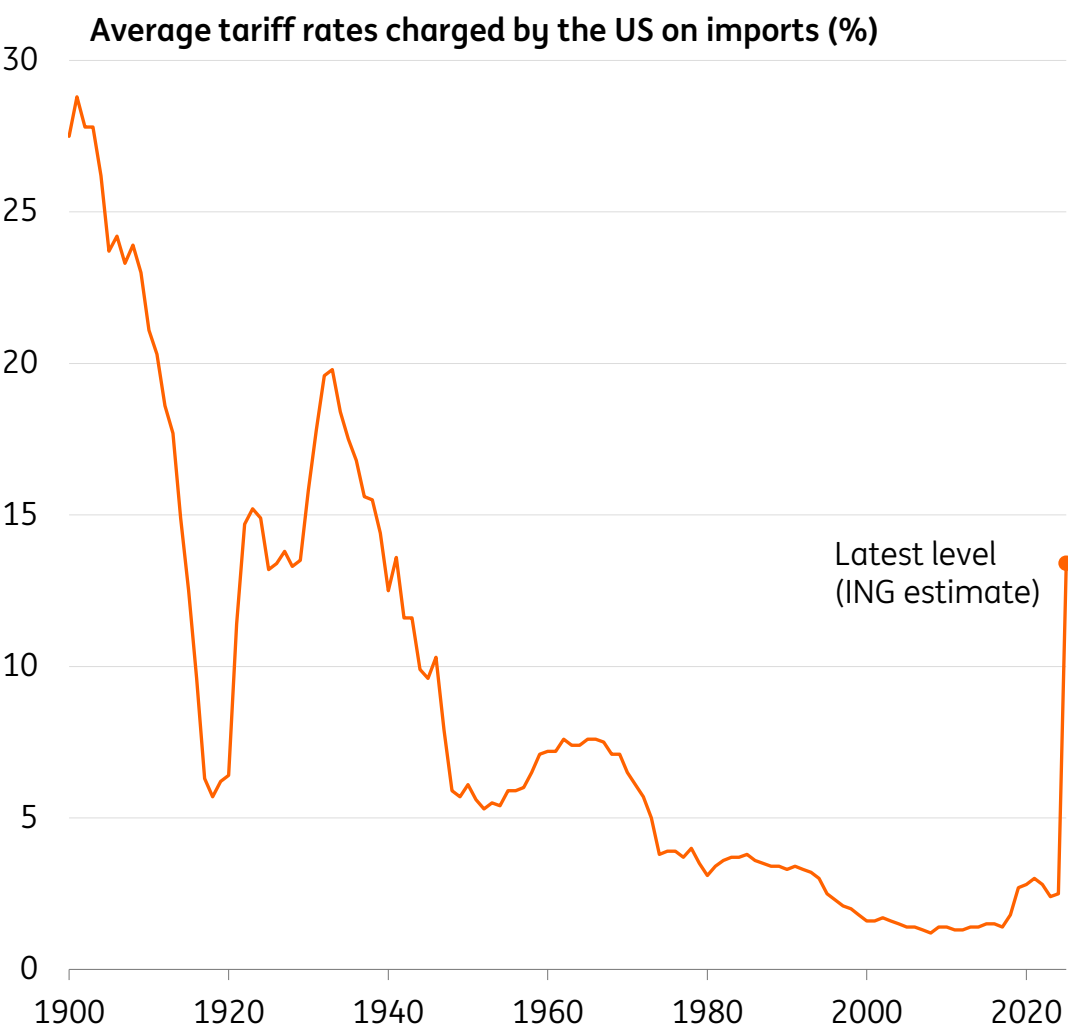
Tariffs will have an impact on eurozone growth

Directe impact of US tariffs on European and Belgian GDP (impact via export)

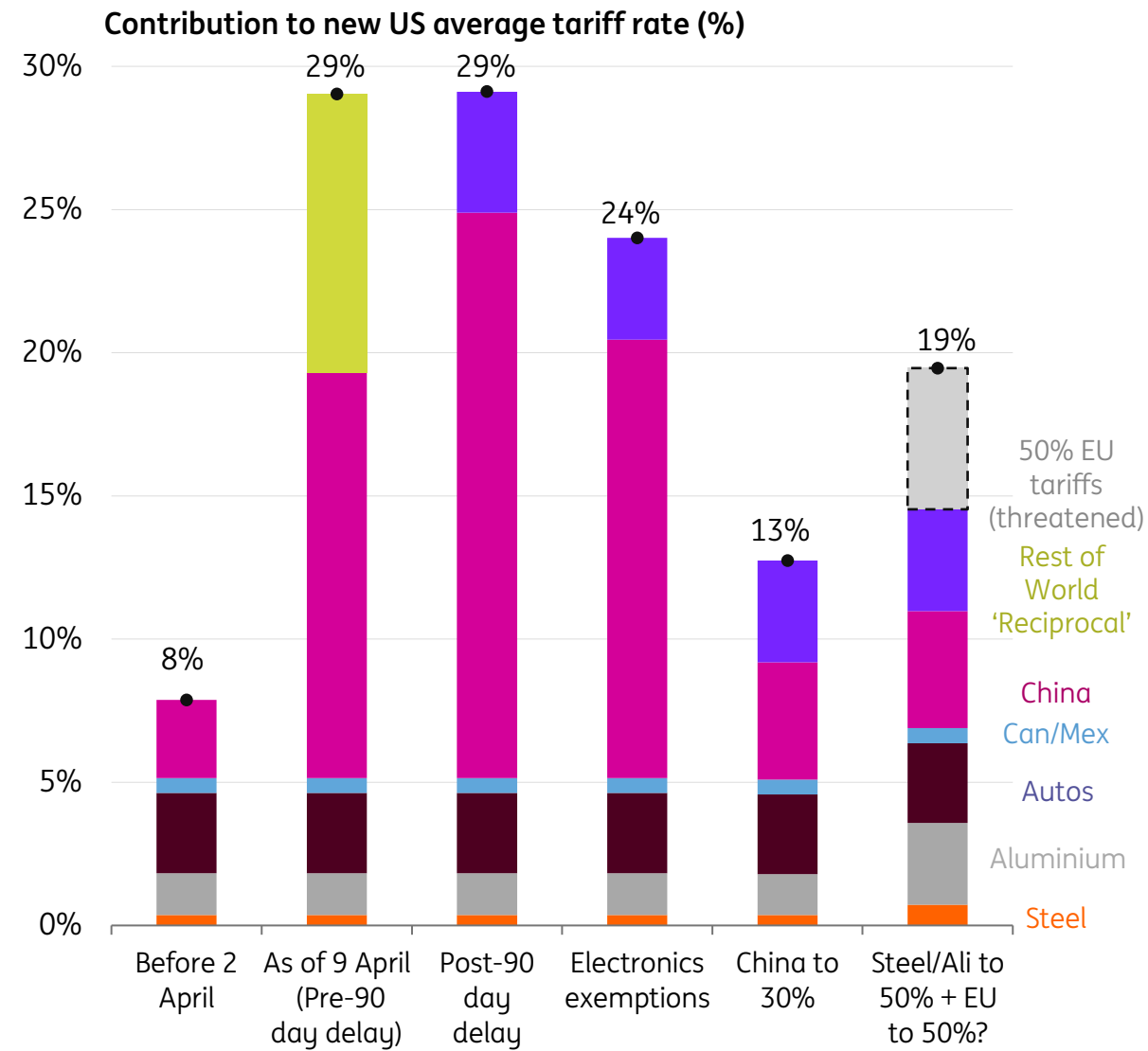


Where we stand on US tariffs

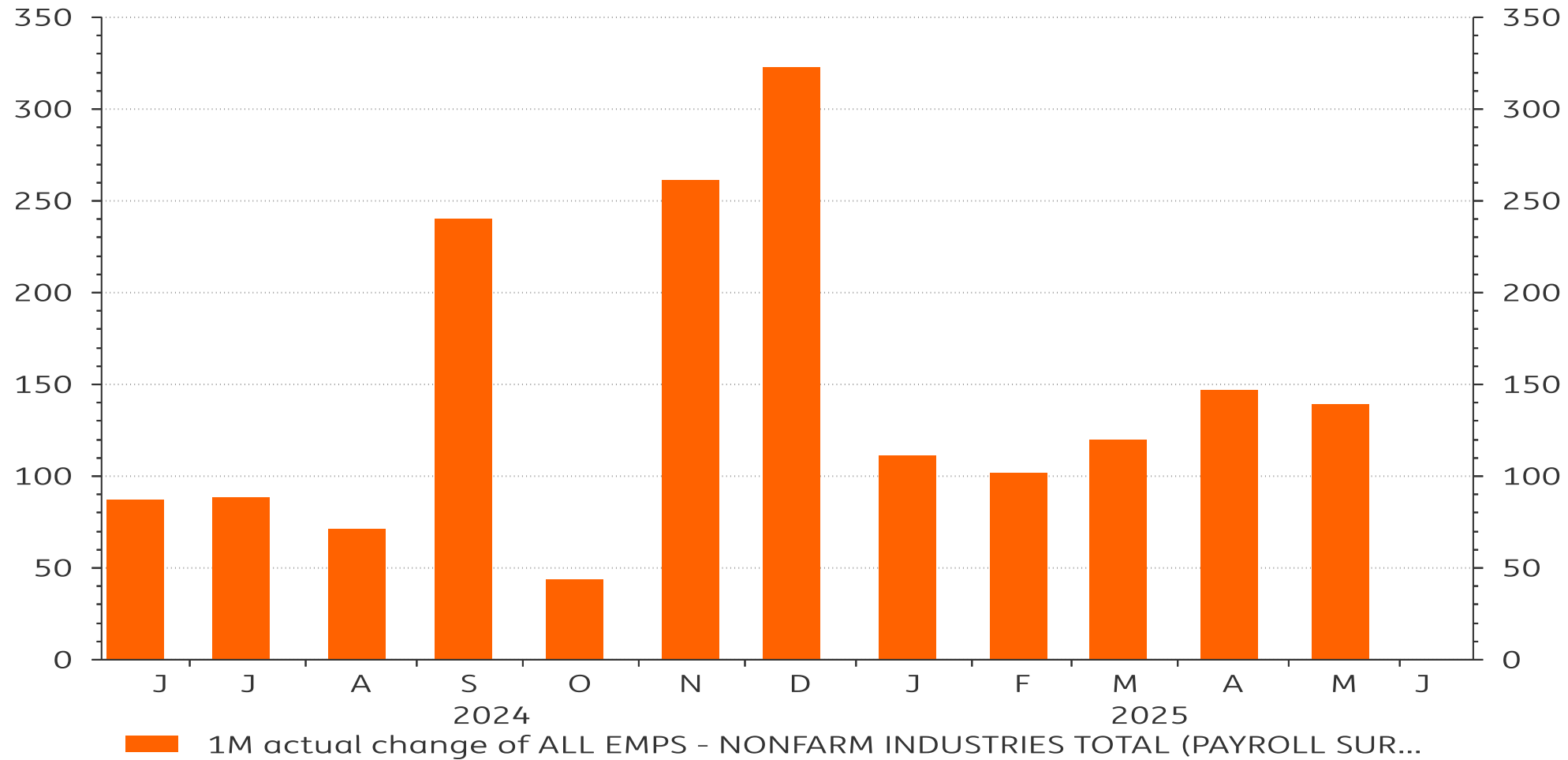
The average tariff rate now stands at 13%, up from 2.5% before Trump's inauguration



Canada/Mexico – only non-compliant USMCA goods subject to 25% tariff.
Source (historical data): Tax Foundation

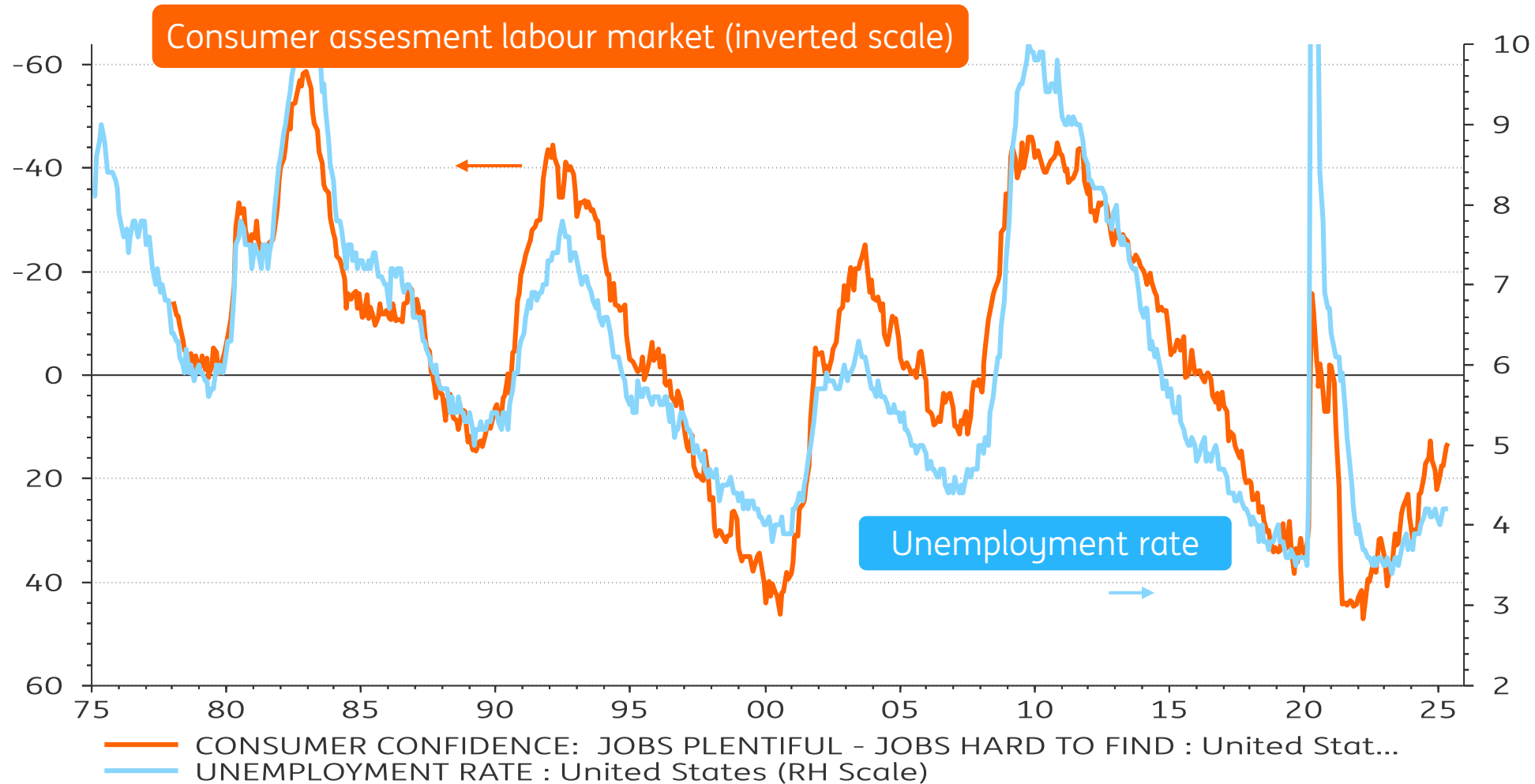


US labour market remains strong...



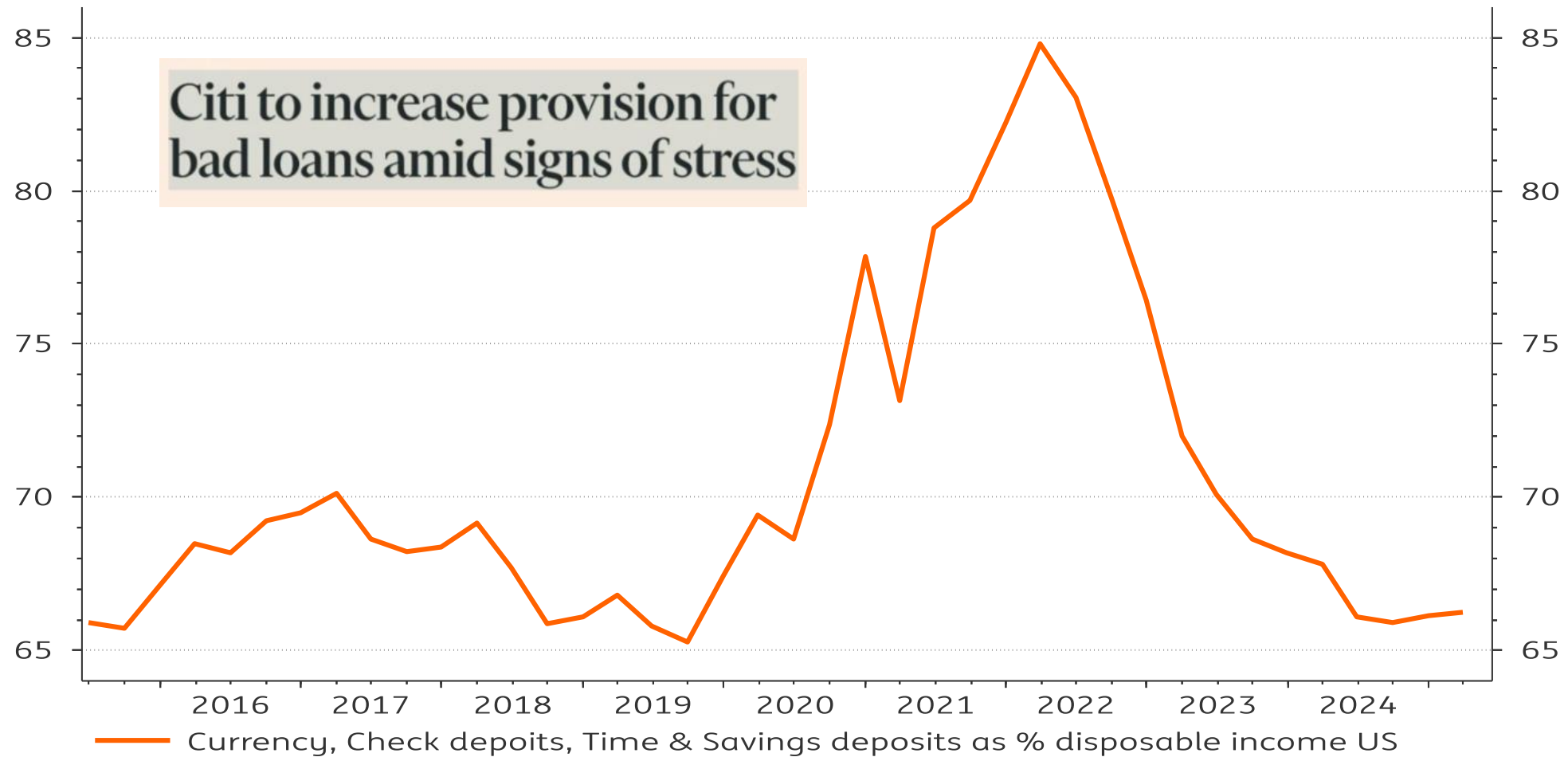
Source: LSEG Datastream, ING Economic Research

...though households see some weakening



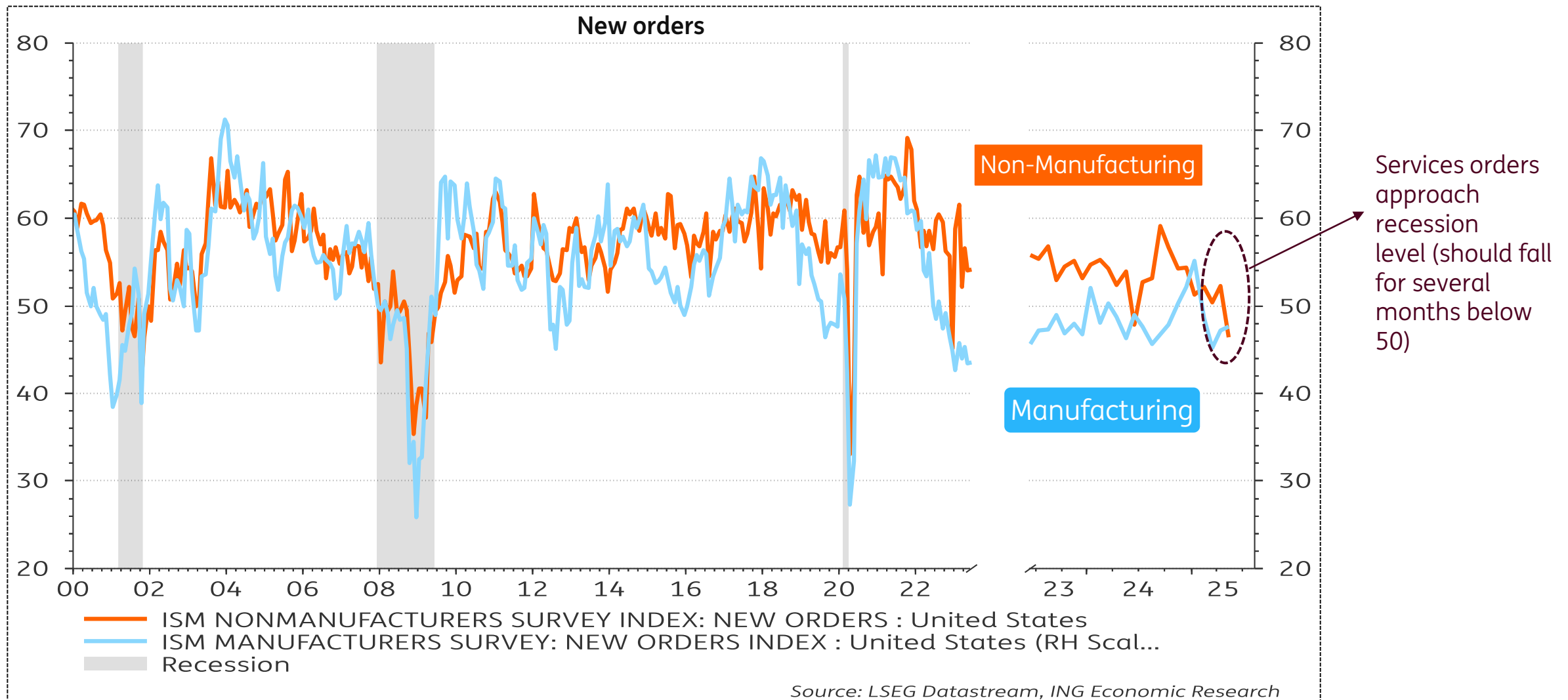
Source: LSEG Datastream, ING Economic Research

Surplus savings have been spent

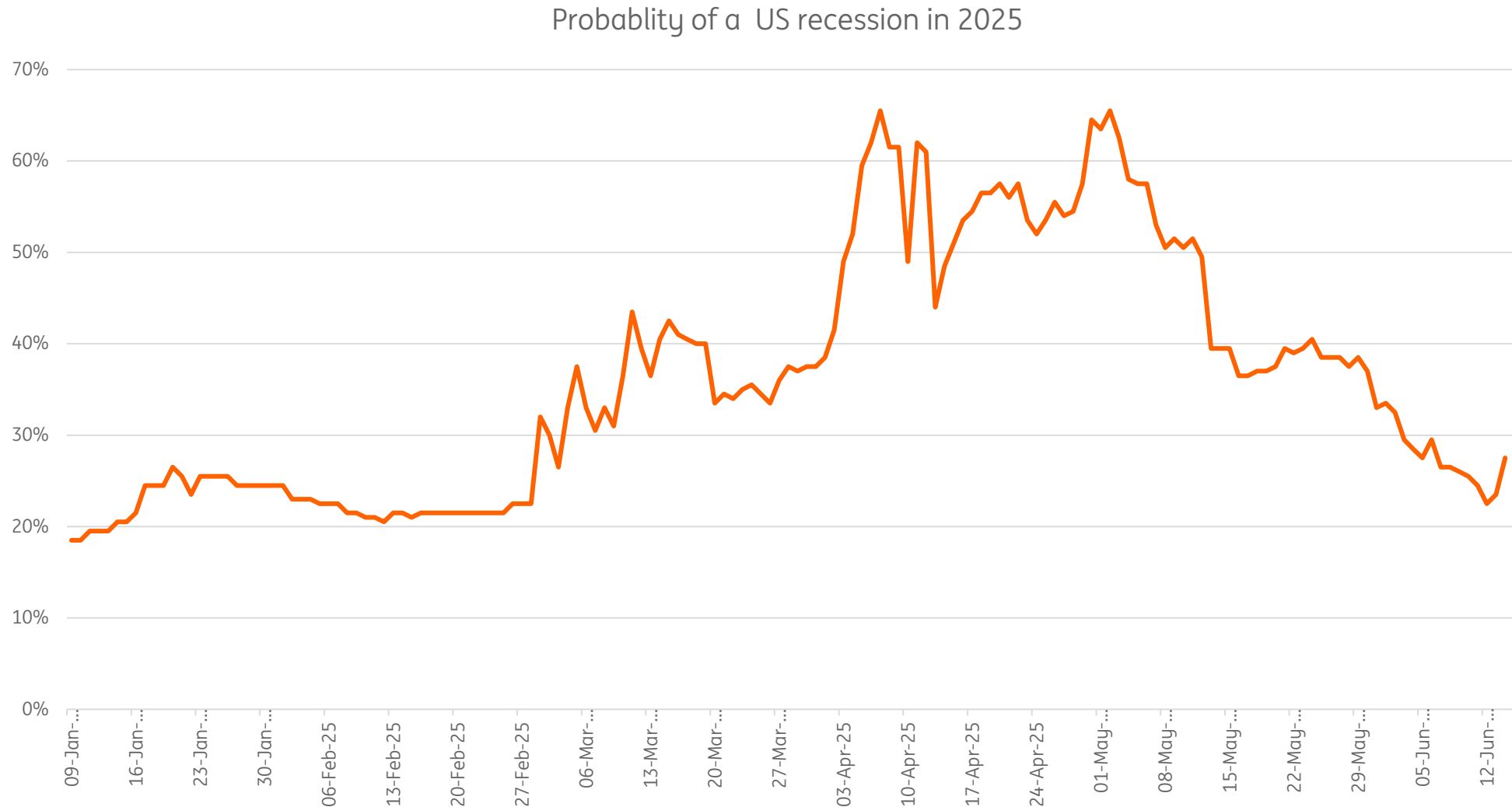


Source: LSEG Datastream, ING Economic Research

ISM new orders look worrisome

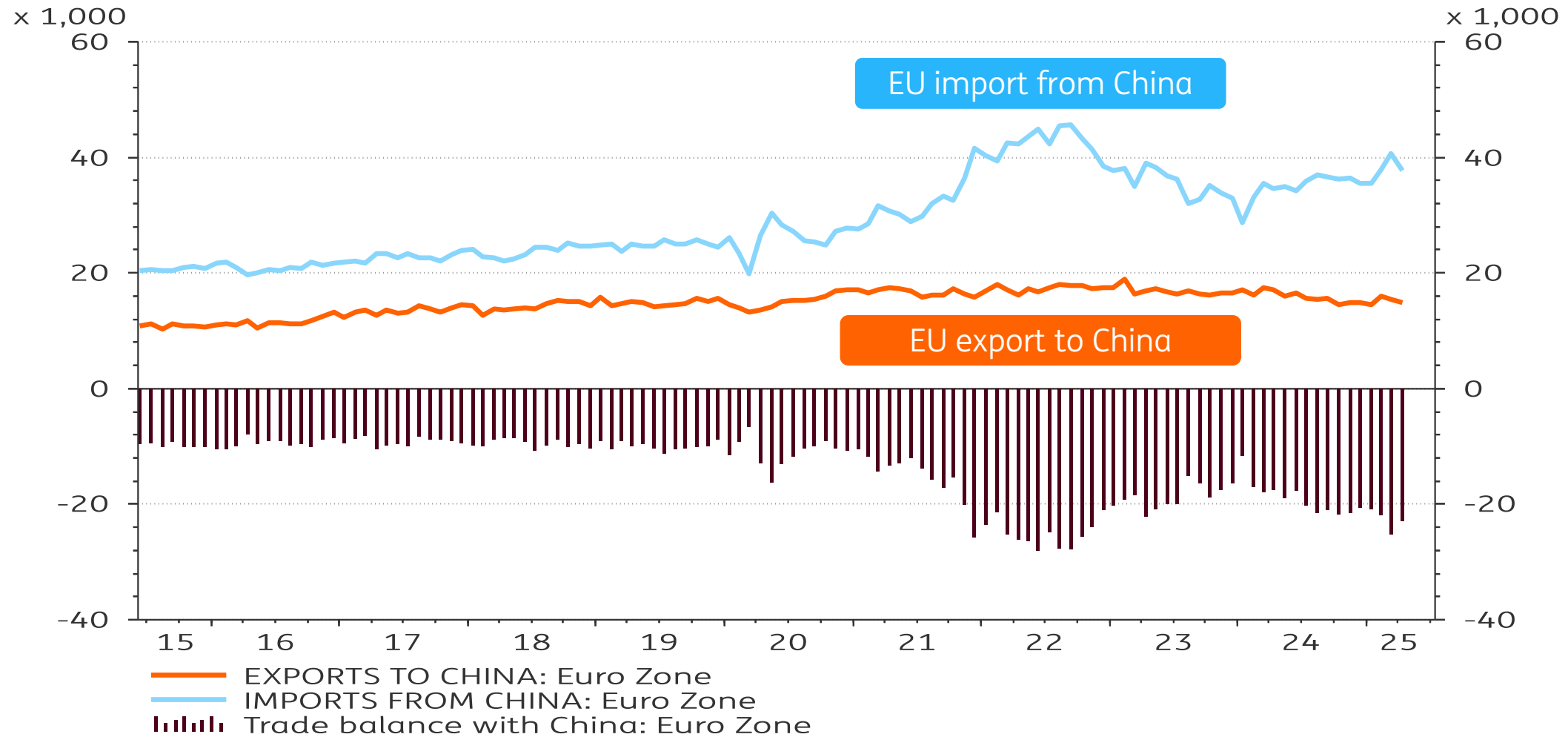


Recession risk has been scaled back on betting markets



Source: Polymarket

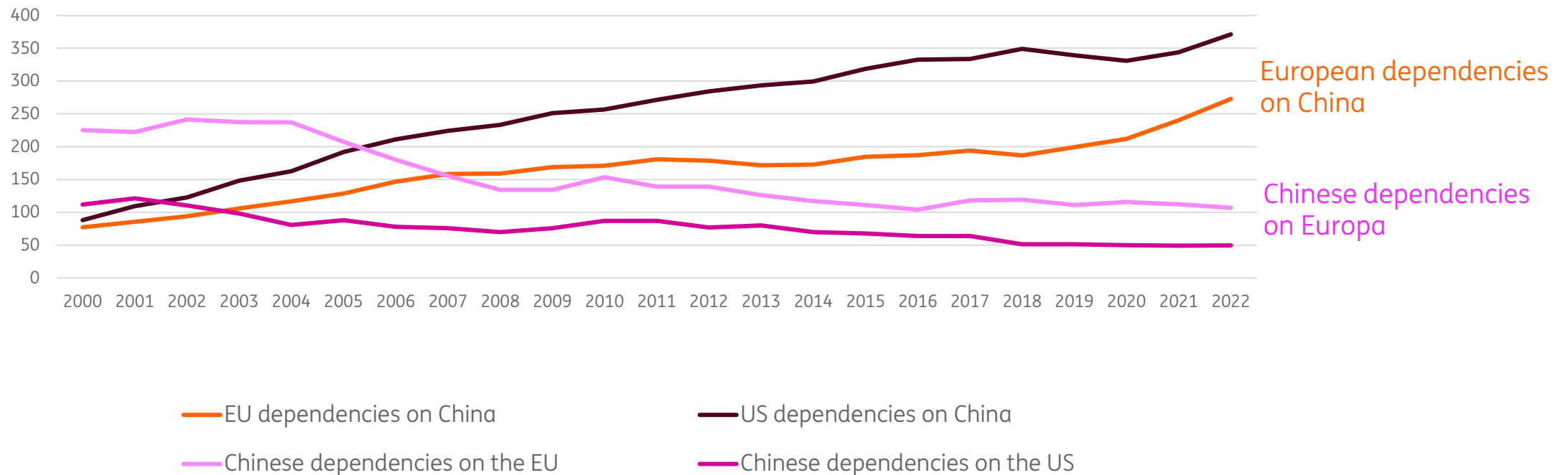
China is exporting more to Europe



Source: LSEG Datastream, ING Economic Research

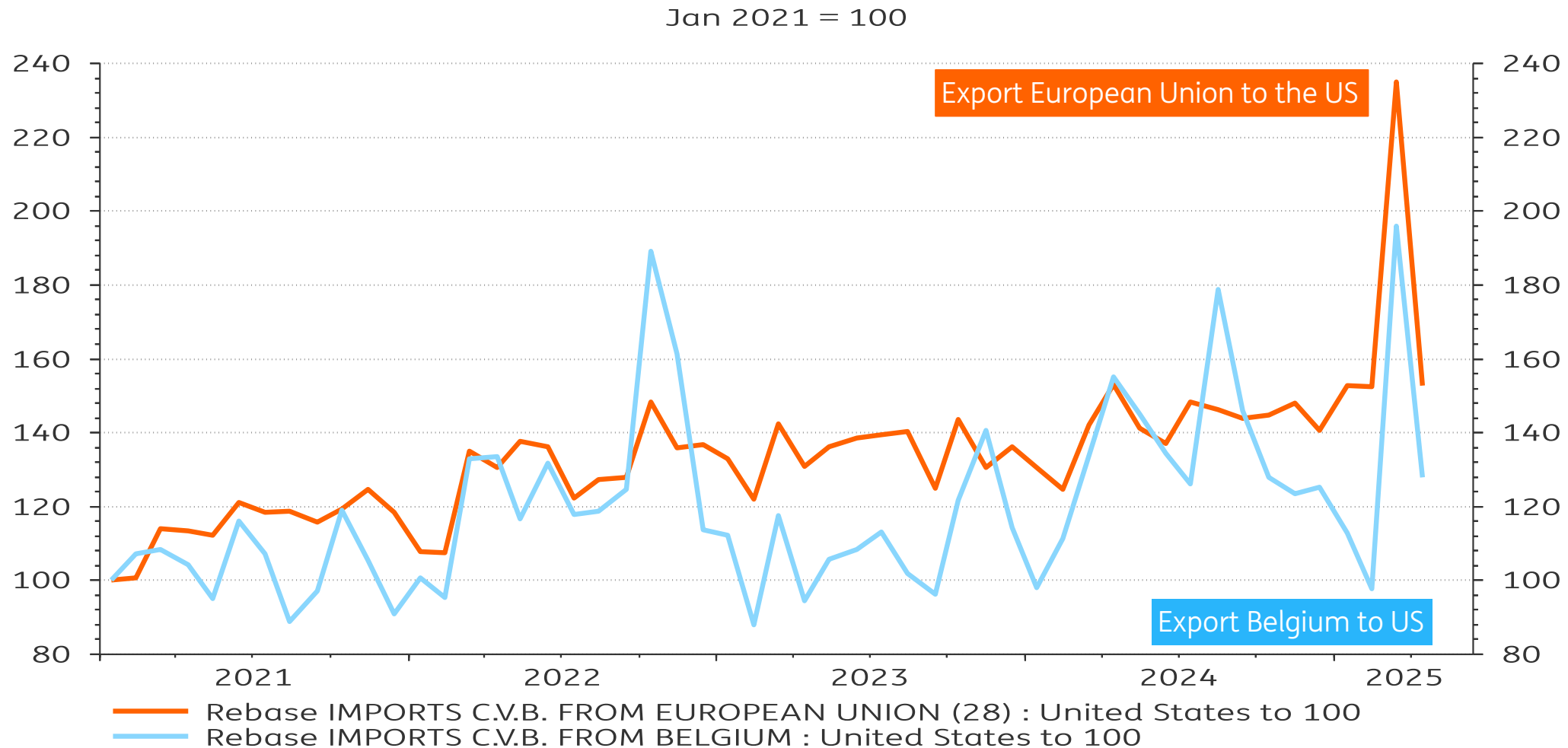
...and dependency from China has increased

Number of bilateral product dependencies (excluding textile sector)



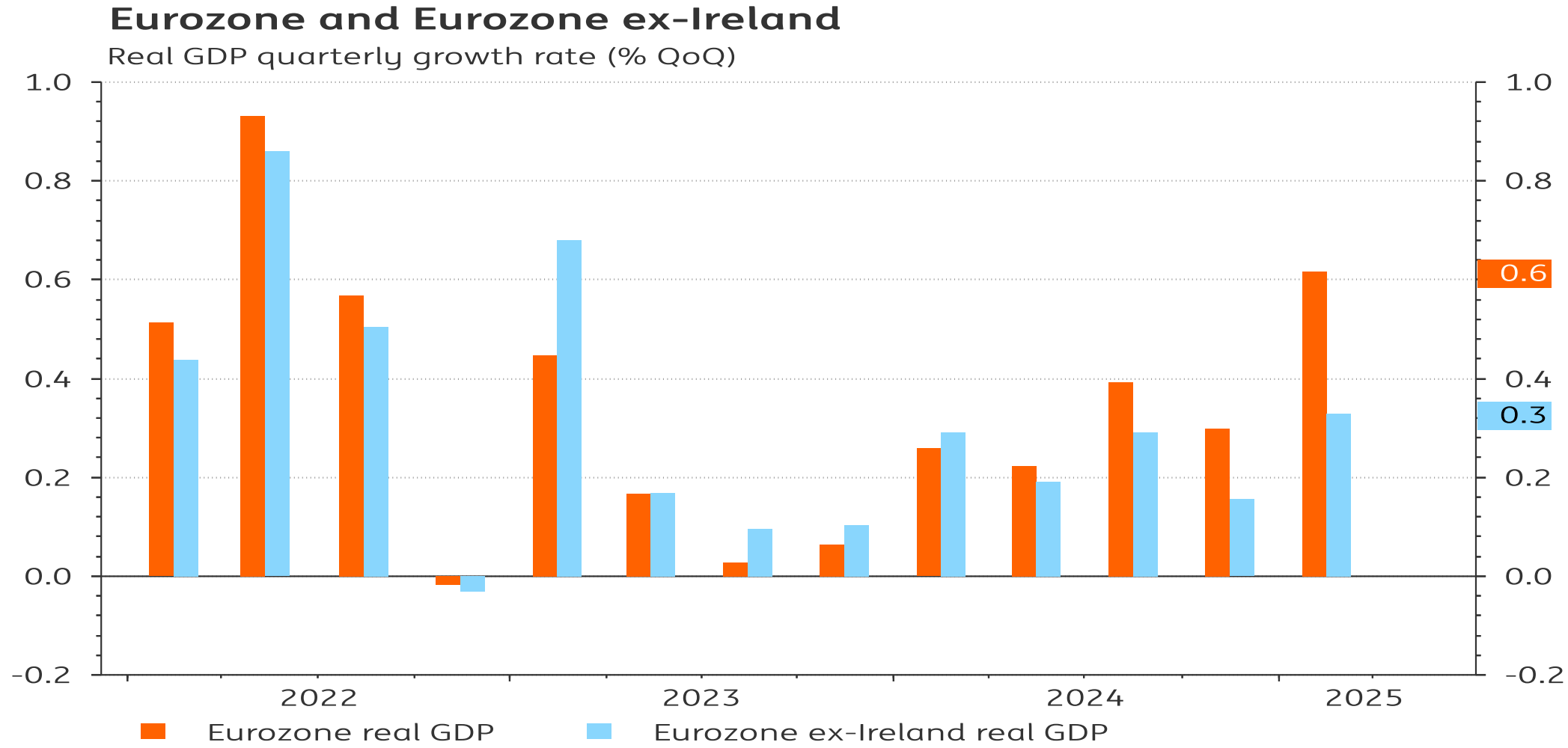
Source: MERICS Trade Dependency Database

European GDP has been boosted by exports to the US in Q1...



Source: LSEG Datastream, ING Investment Office, Apr 25

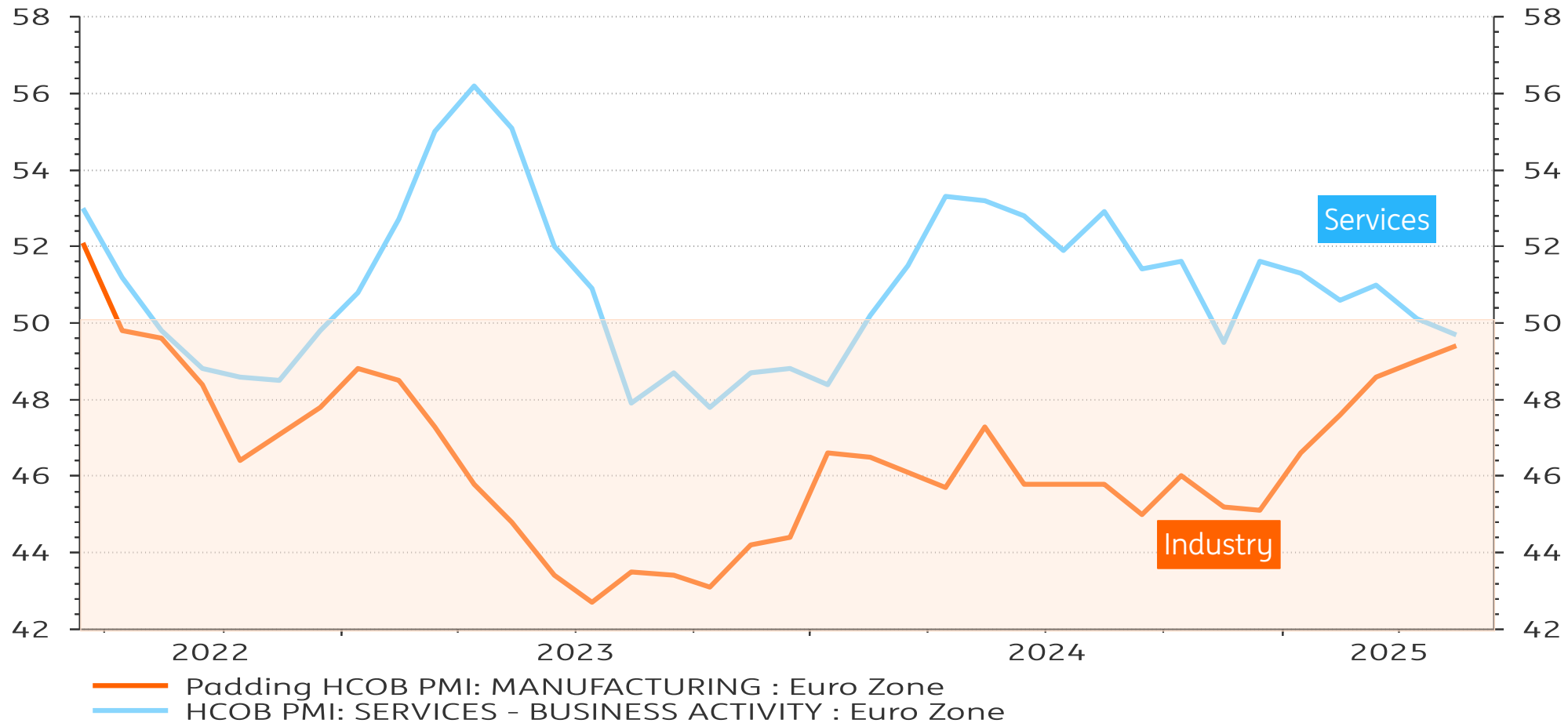
...and by the Irish “distortion”



Source: LSEG Datastream, ING Economic Research

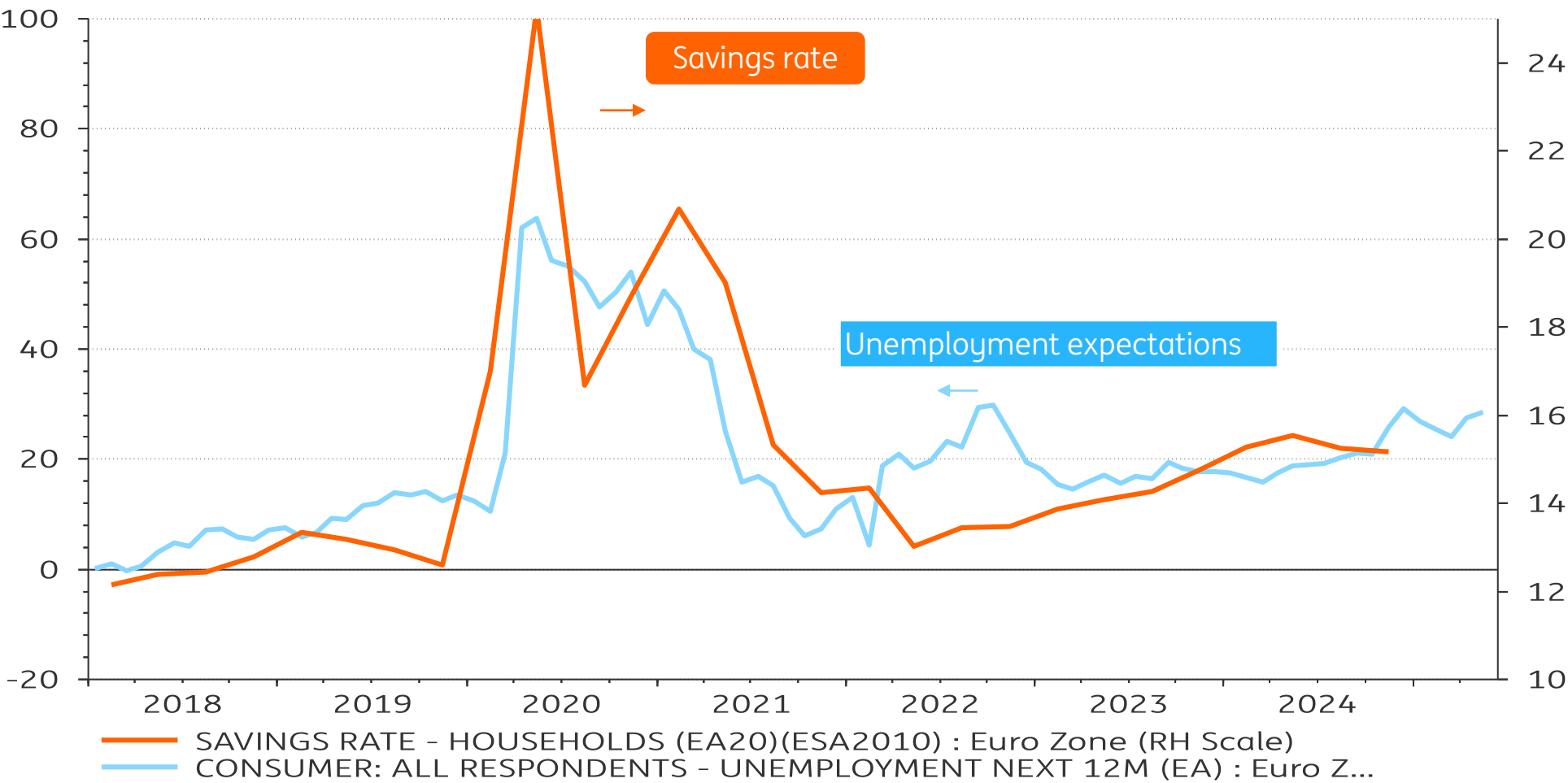
The Eurozone's Q2 is already showing signs of weakness

Purchasing Managers Index



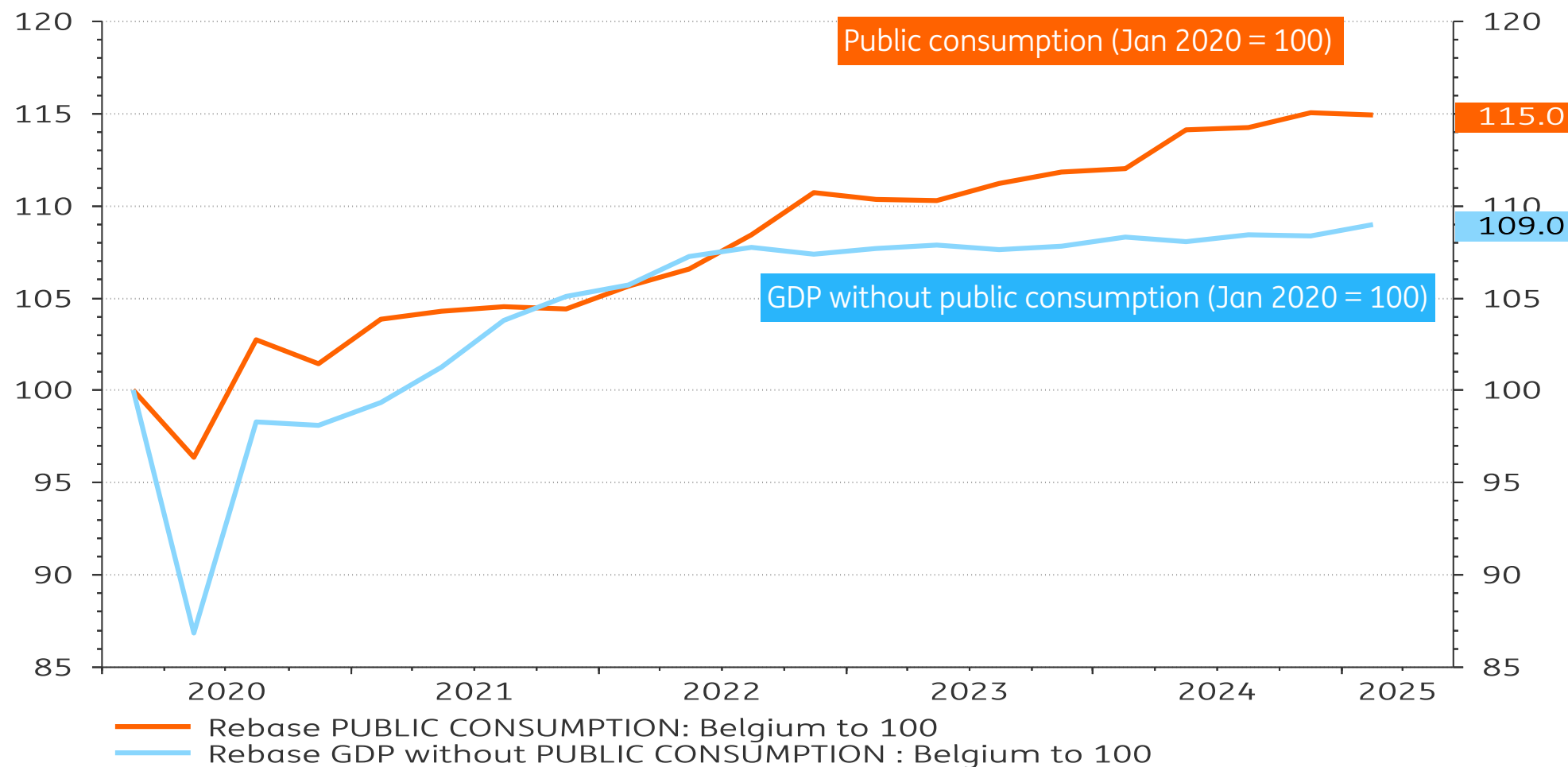
Source: LSEG Datastream, ING Economic Research

Unemployment fears are likely to increase savings rate



Source: LSEG Datastream, ING Economic Research , Q4 24

Public spending has been important Belgian growth driver



Source: LSEG Datastream, ING Economic Research

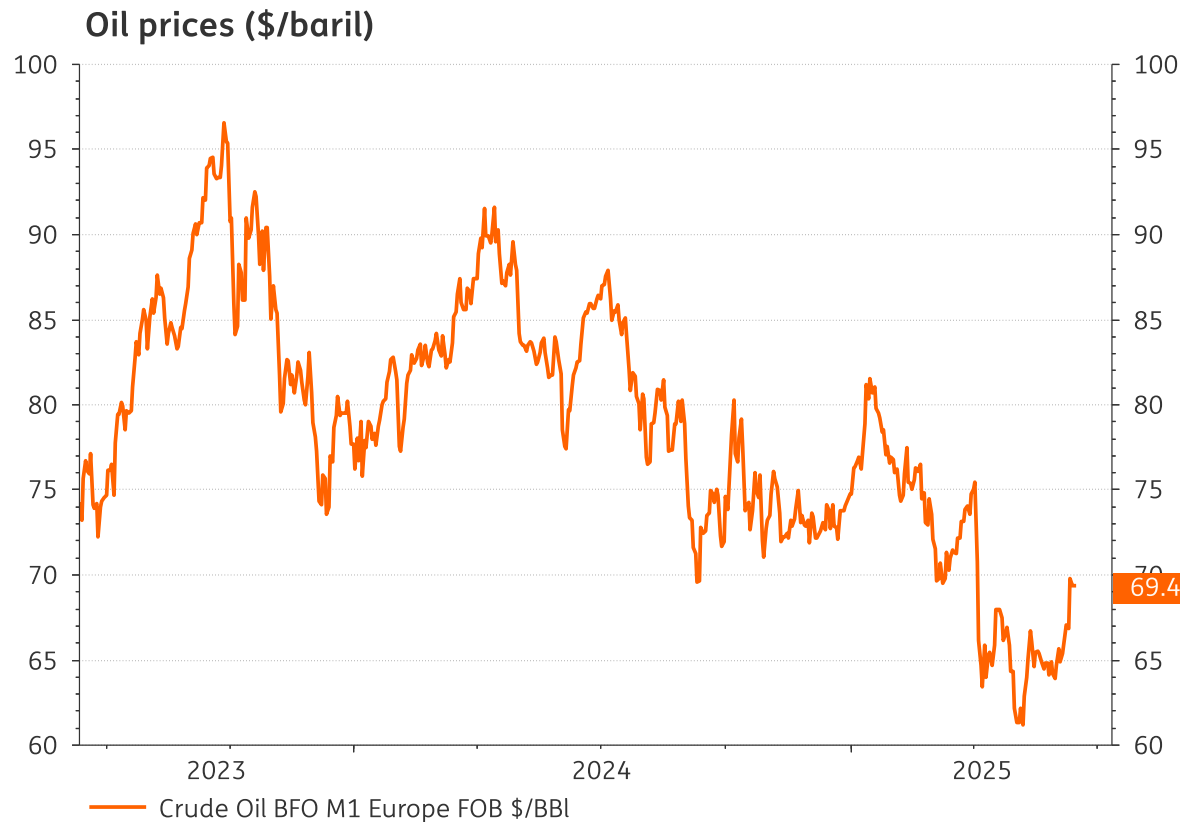
Forecasts real GDP growth

	2024	2025	2026
United States	2.8	1.6	1.3
Eurozone	0.7	1.0	1.0
United Kingdom	1.1	1.2	0.9
Belgium	1.0	0.7	0.8
Japan	0.2	0.8	0.7
China	4.8	4.7	4.2

Is inflation under control?



Tensions in the Middle East revive inflation fears...



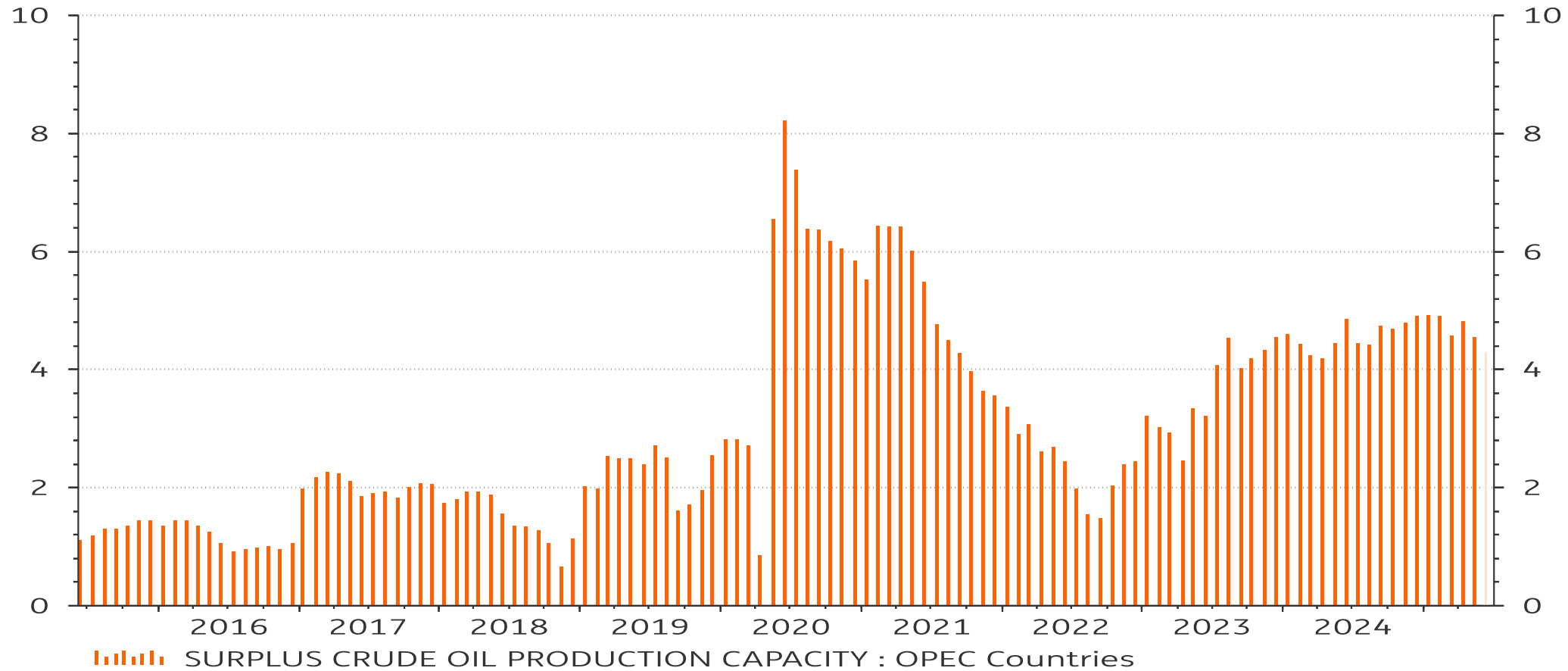
Source: LSEG Datastream, ING Economic Research

Iran produces 3.3 million barrels of oil a day, around 3% of the world's daily output.

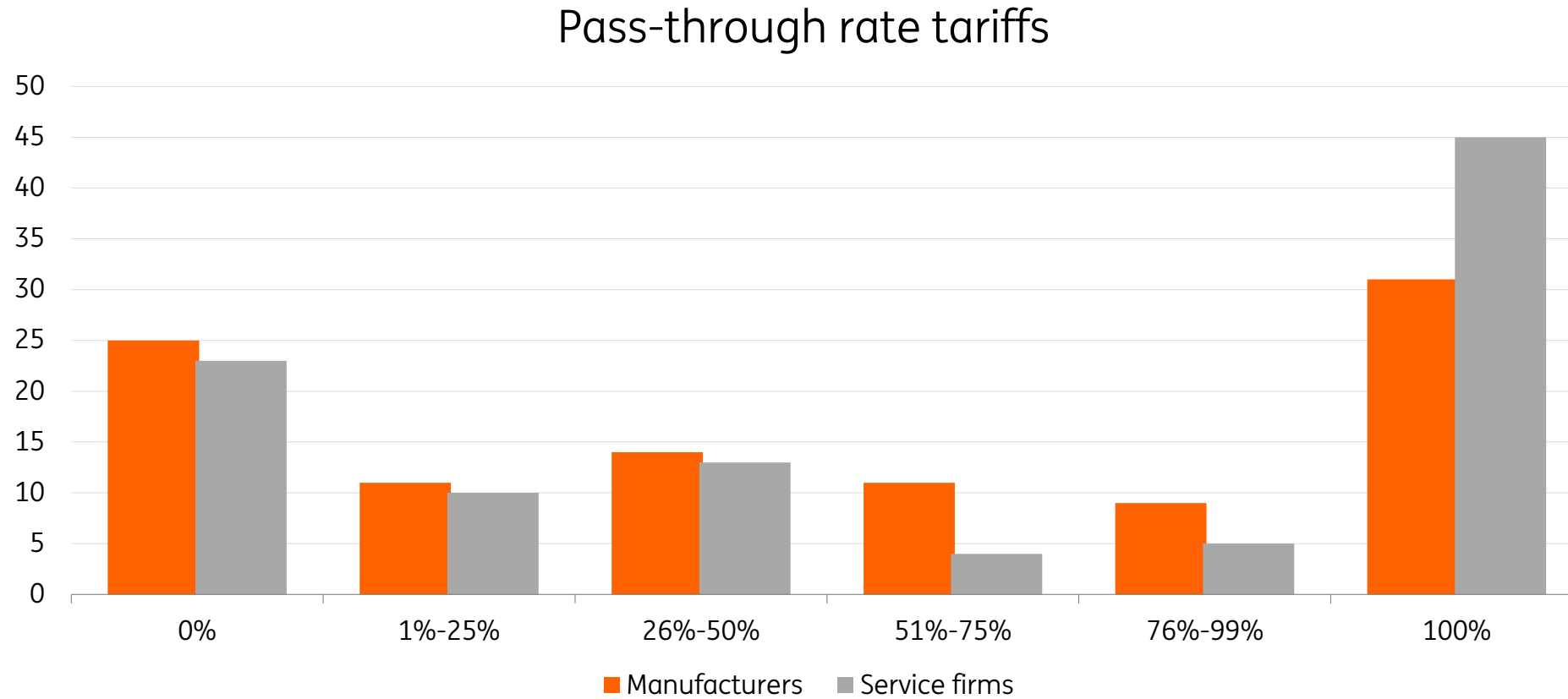
Different scenarios:

- **Limited conflict** and no disruption to Iranian oil flow: 65-70\$/barrel
- **Escalation with disruption to Iranian oil flows:** 75-80\$/barrel
- **Escalation and disruption in shipping through the Strait of Hormuz** (where 20% of the world's oil and gas passes through): 120\$/barrel + gas prices significantly higher

...though OPEC countries still have ample spare capacity

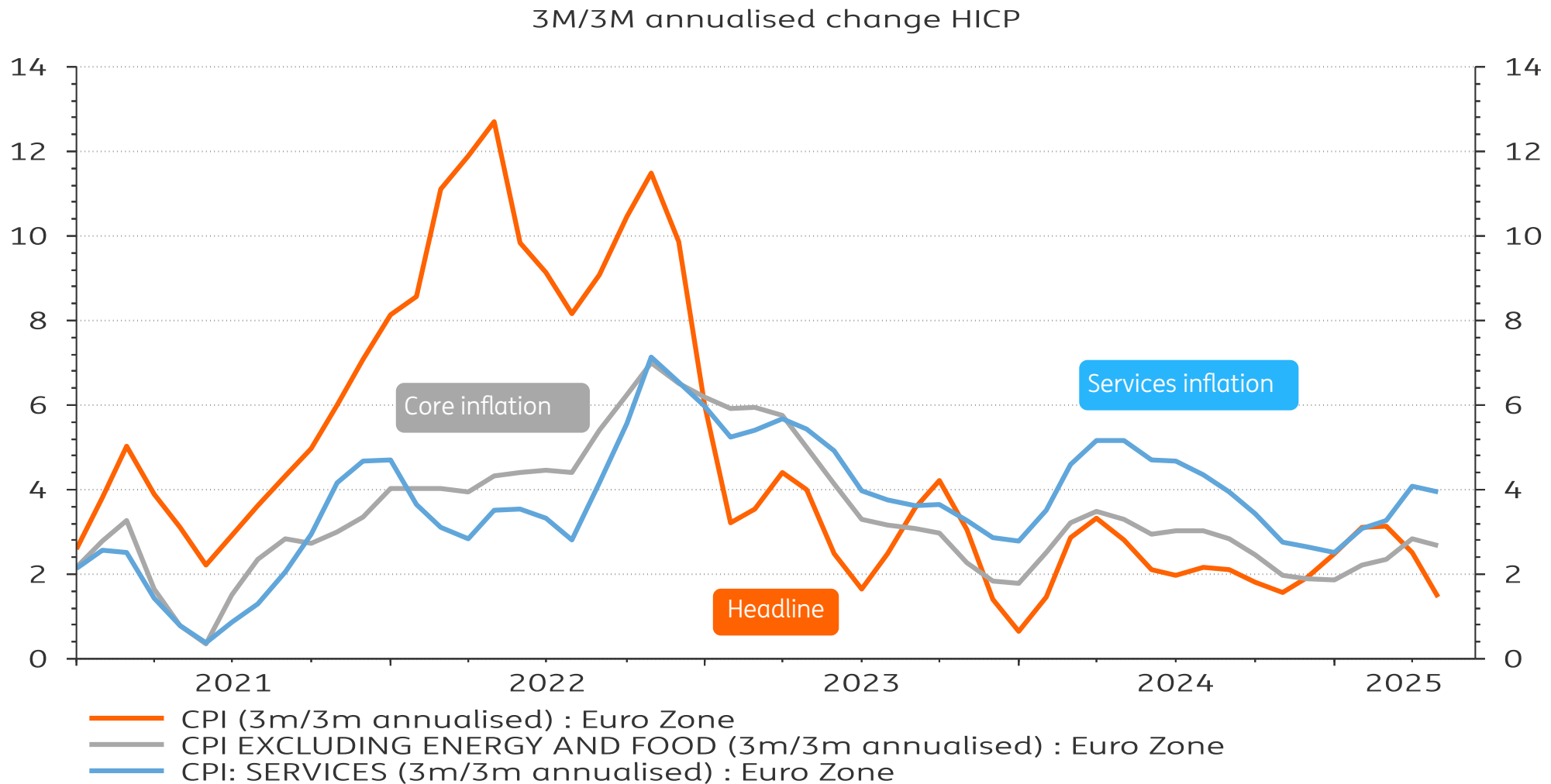


A substantial part of tariffs will be passed on to the US consumer



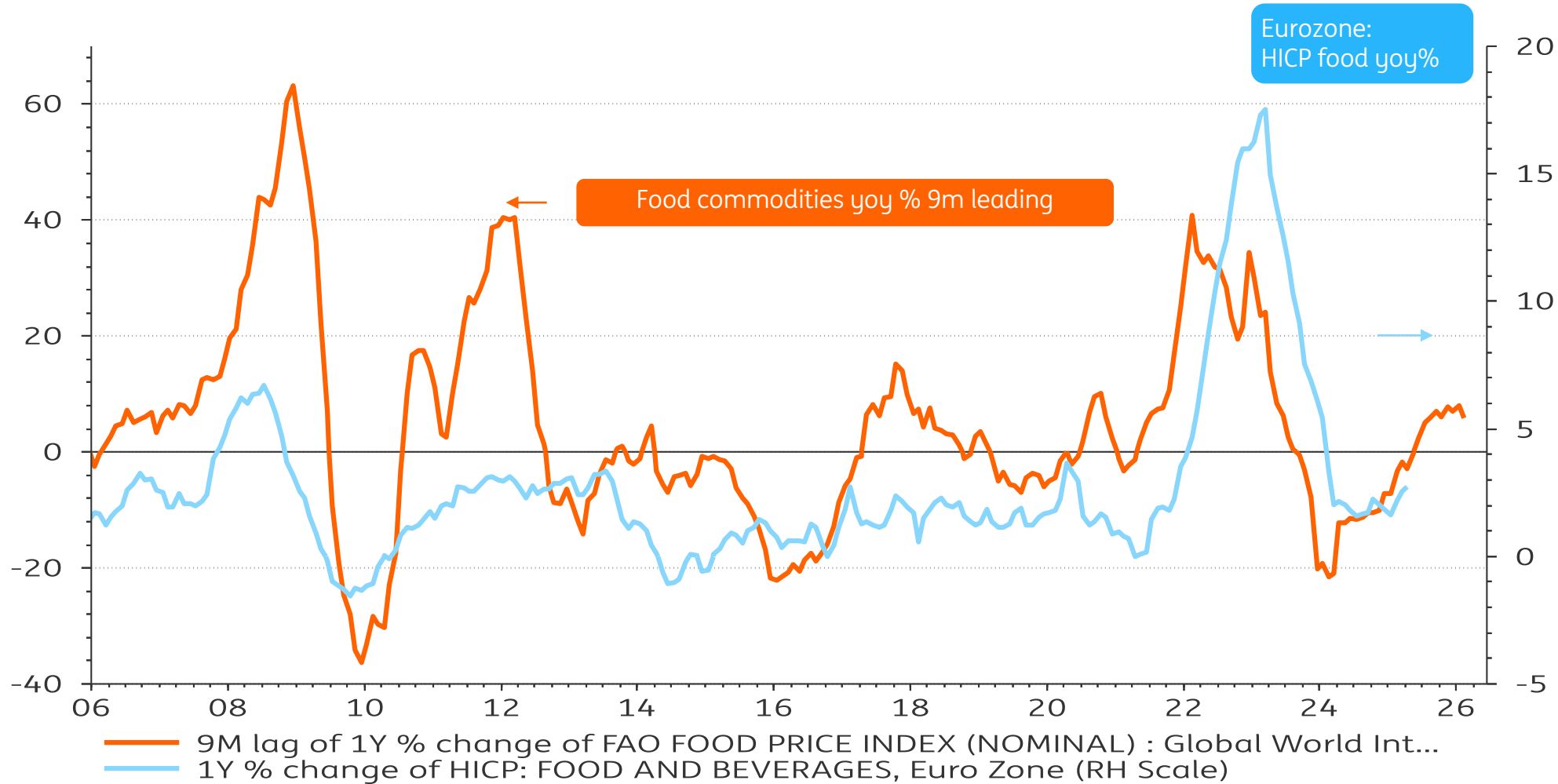
Source: New-York Fed

Eurozone inflation is slowly declining...



Source: LSEG Datastream, ING Economic Research

...though food inflation is still more sticky

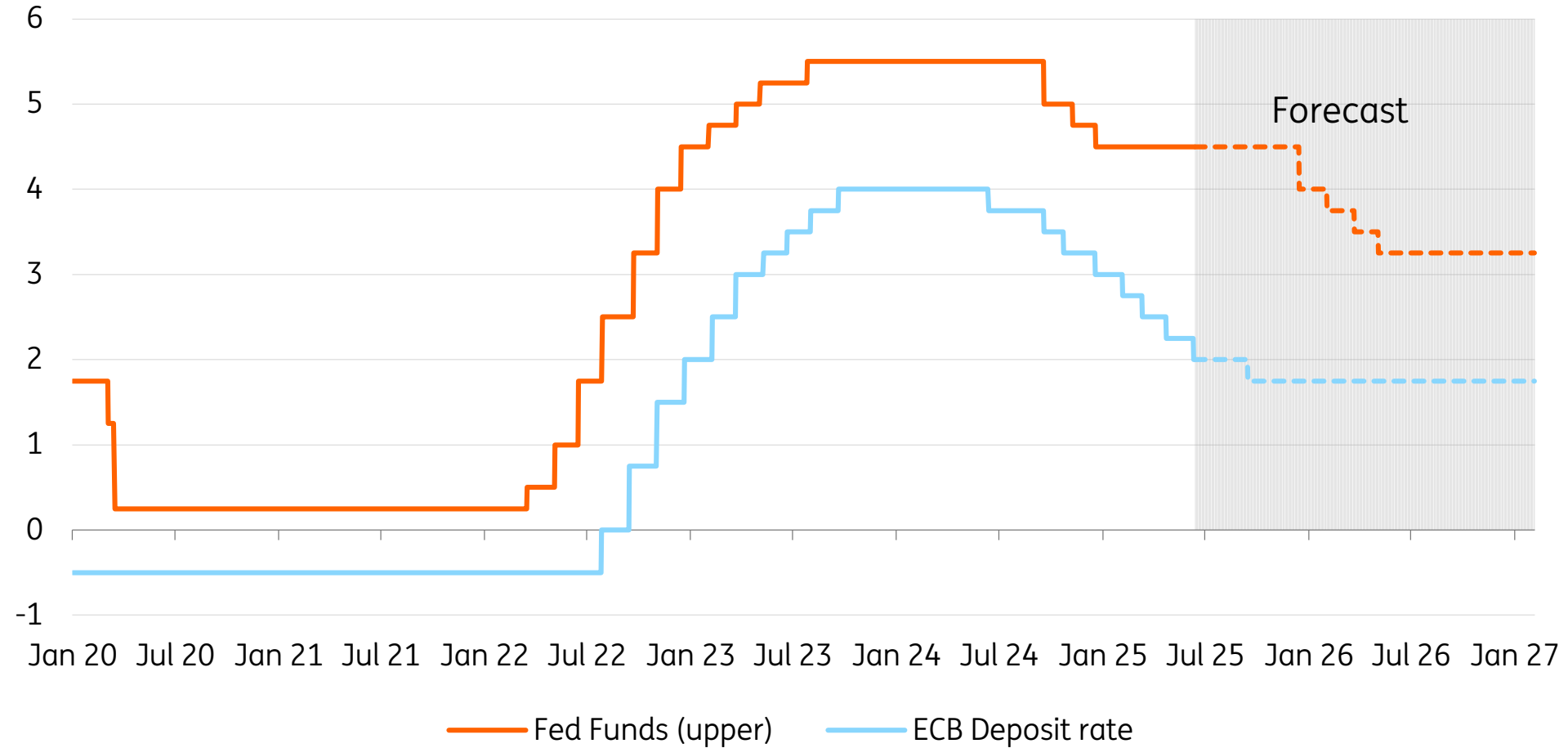


Source: LSEG Datastream, ING Economic Research

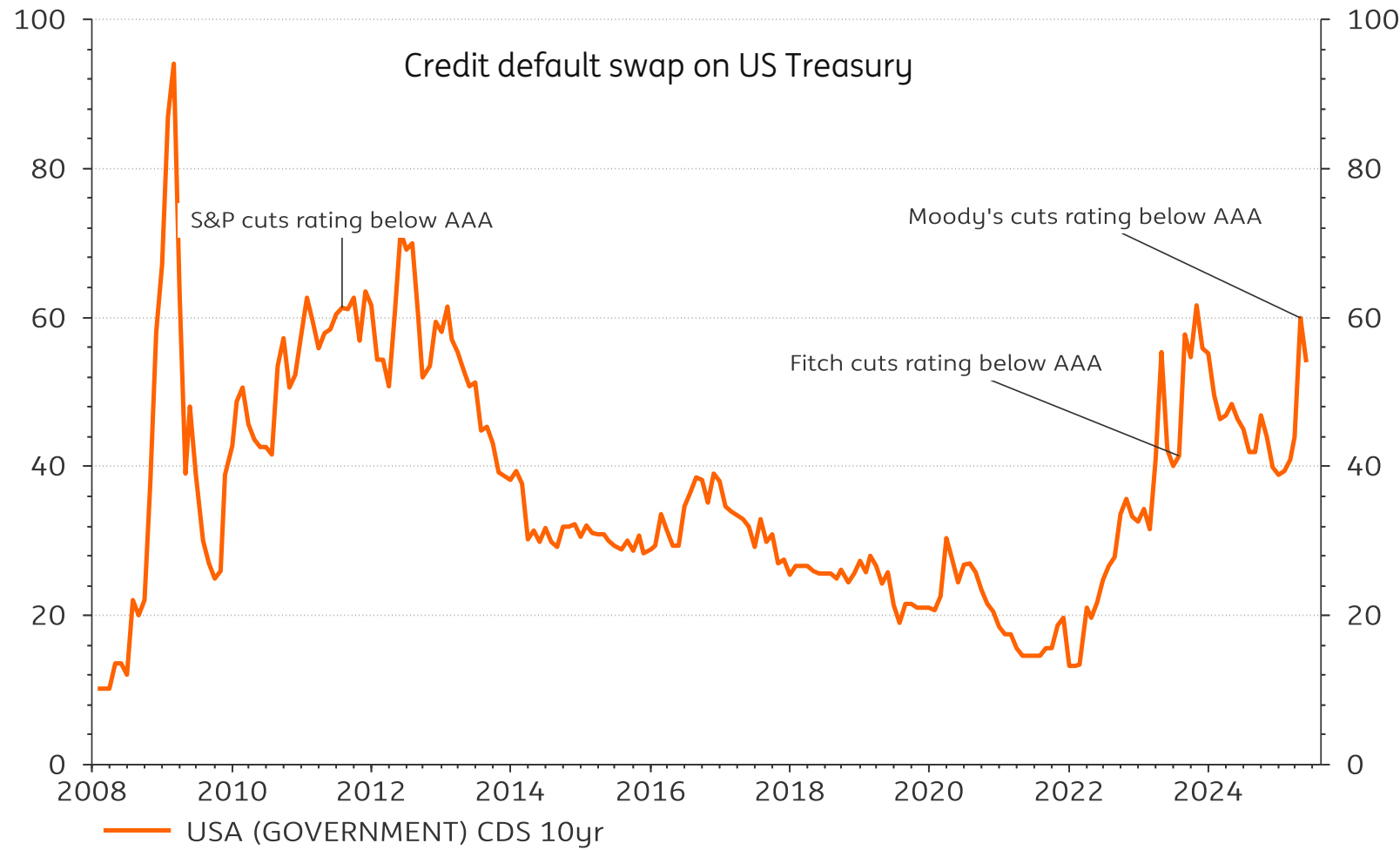
What to expect from central banks?



Central banks in wait-and-see approach?



Big beautiful bill has impact on bond yields

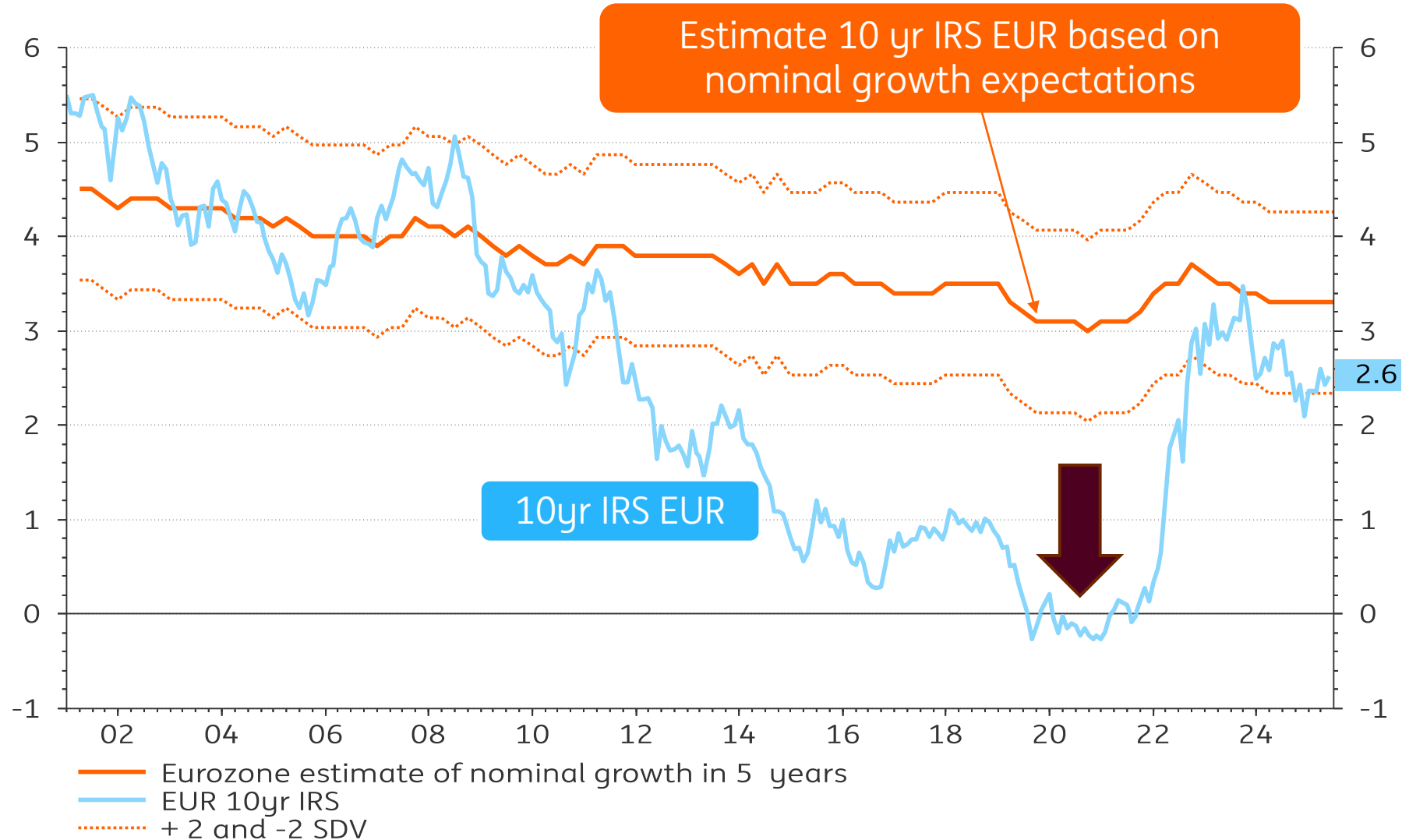


Source: LSEG Datastream, ING Economic Research

In the baseline specification, for each percentage-point increase in the ratio of projected debt to GDP, expected interest rates have increased by 2 to 3 basis points. (Edward Gamber and John Seliski Congressional Budget Office, 2019)

Budget could push debt ratio from 100% of GDP to 125% by 2034

EUR Long term interest rates have little downward potential

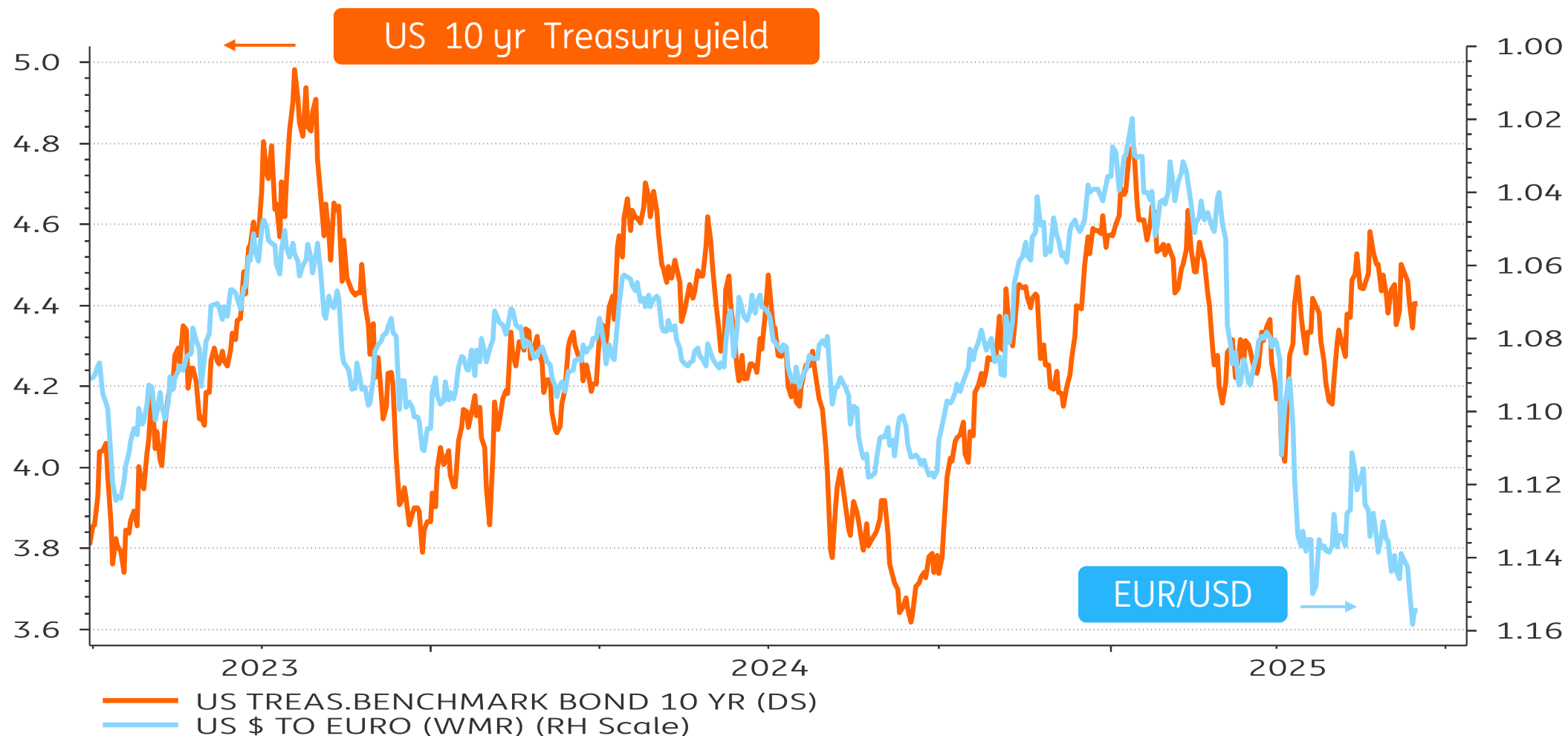


The cumulative downward impact of QE on 10yr yields amounted to 180 bp in 2021 (ECB)

Trump: from good to bad for the dollar?

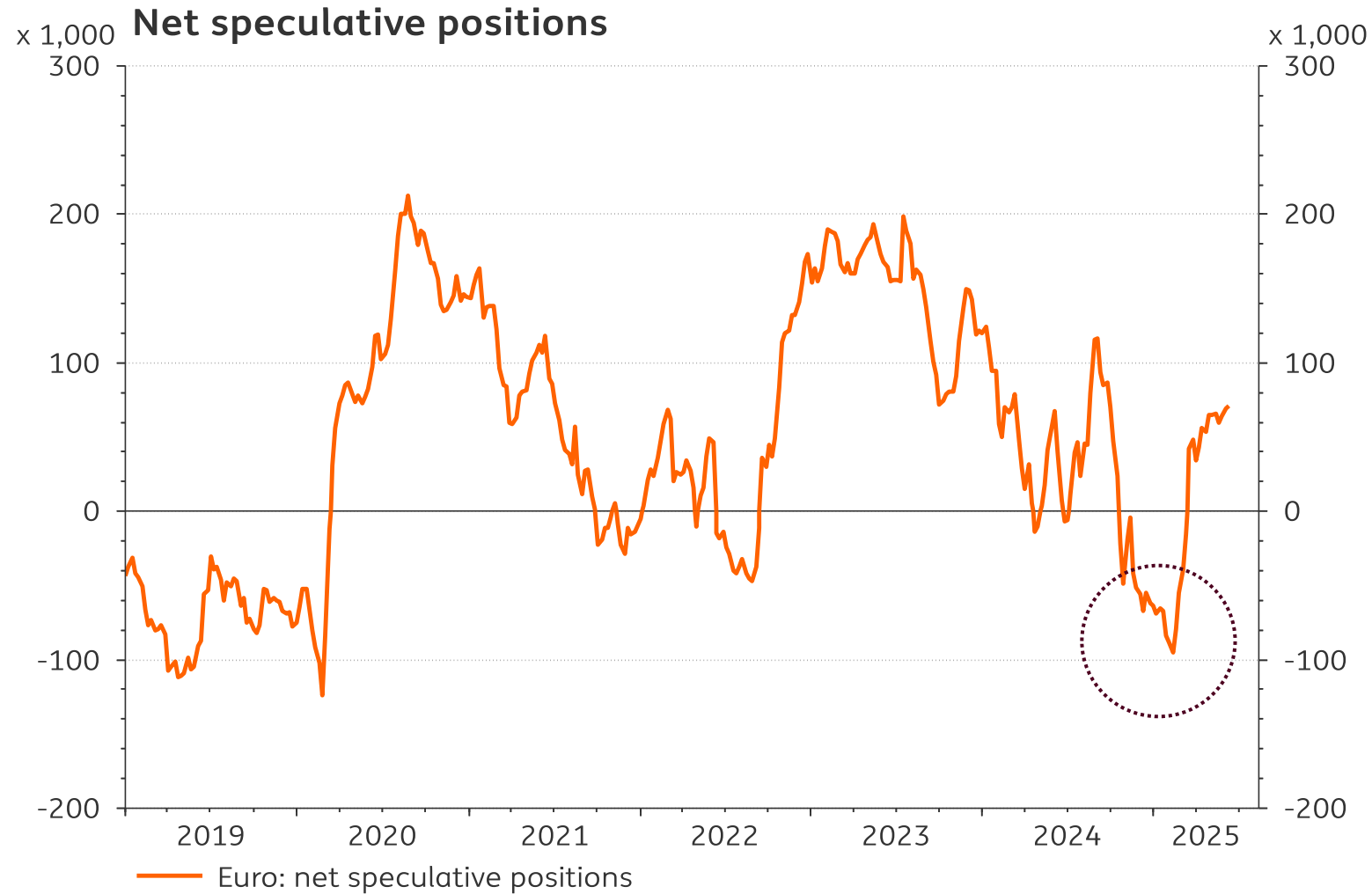


Doubts about the dollar's reserve currency status



Source: LSEG Datastream, ING Economic Research

Speculative short positions in euro have already been reversed



Source: LSEG Datastream, ING Economic Research

According to BofA's Global Fund Manager Survey investors were in May the most underweighted in USD since 2006



ING Investment Office

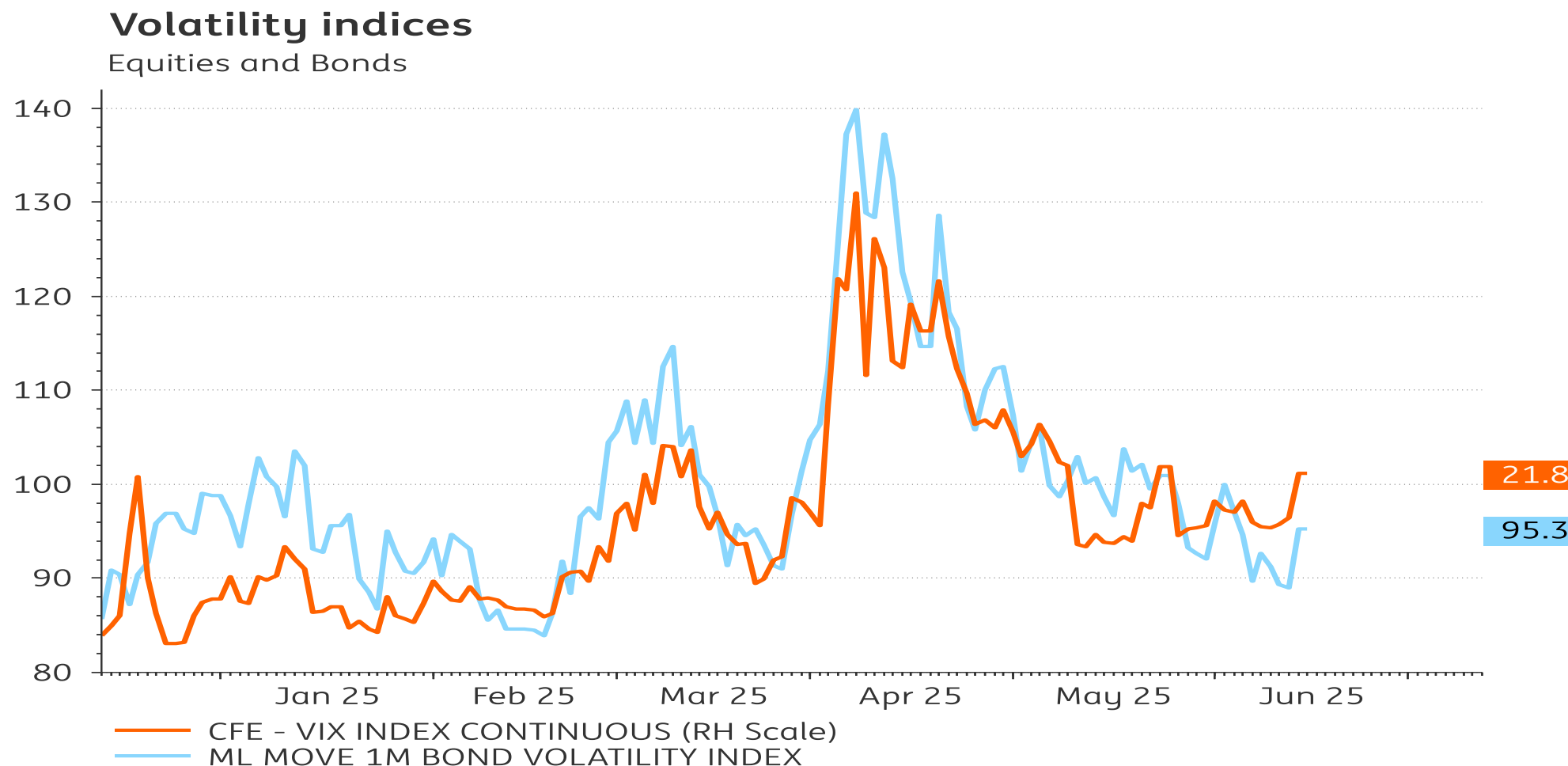
“Hope for the best but prepare for the worst”

Vincent Juvyns – Chief Investment Strategist - ING Investment Office

Agenda

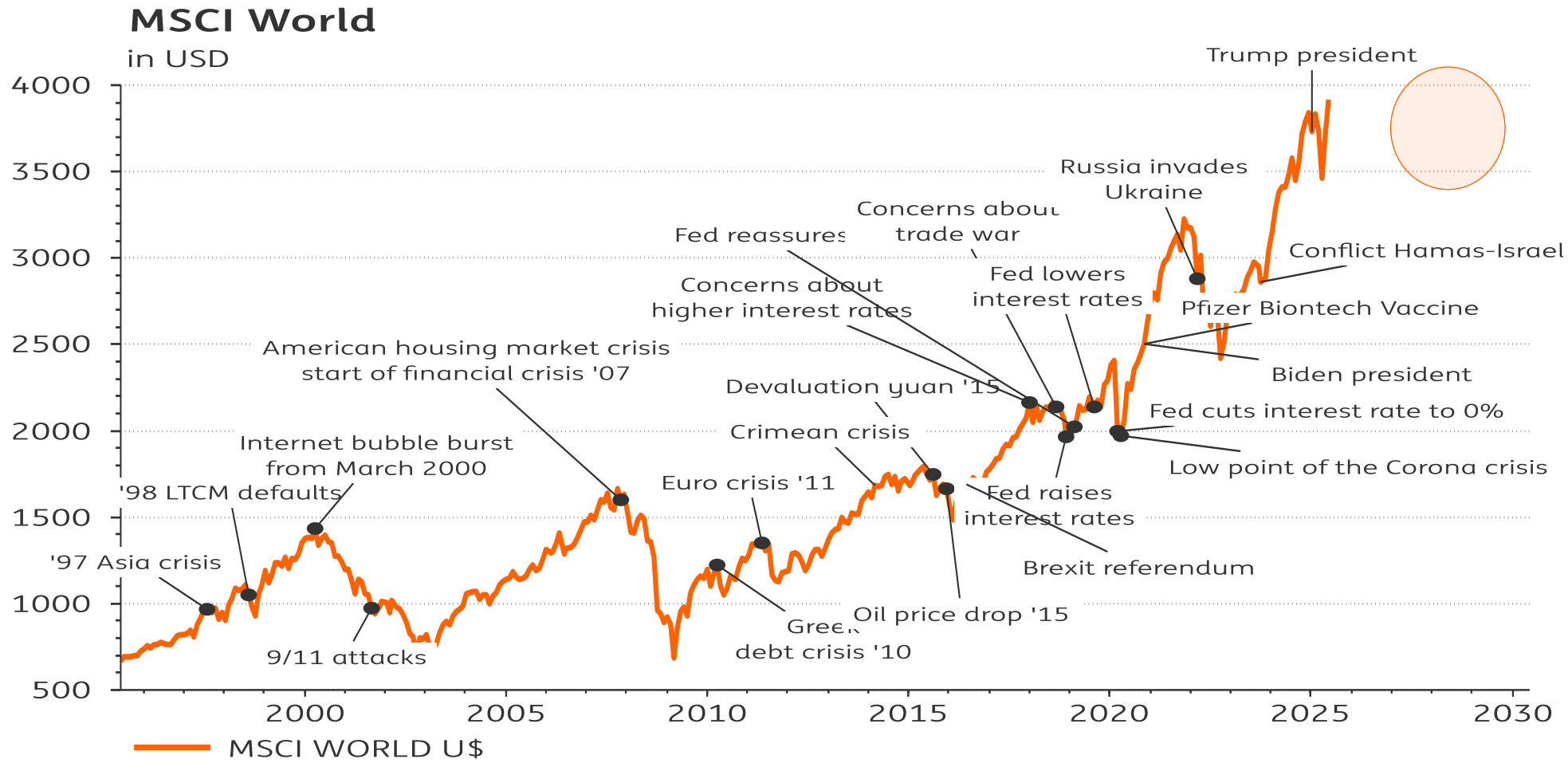
- 1** *Review of H1*
- 2** *Fixed income markets are confronted with cross currents*
- 3** *Equity markets: Beta less supportive but alpha opportunities at sector level*
- 4** *TAA: “Hope for the best, prepare for the worst”*

Geopolitical uncertainty has led to a surge in volatility across financial markets, including fixed income markets, which is more unusual



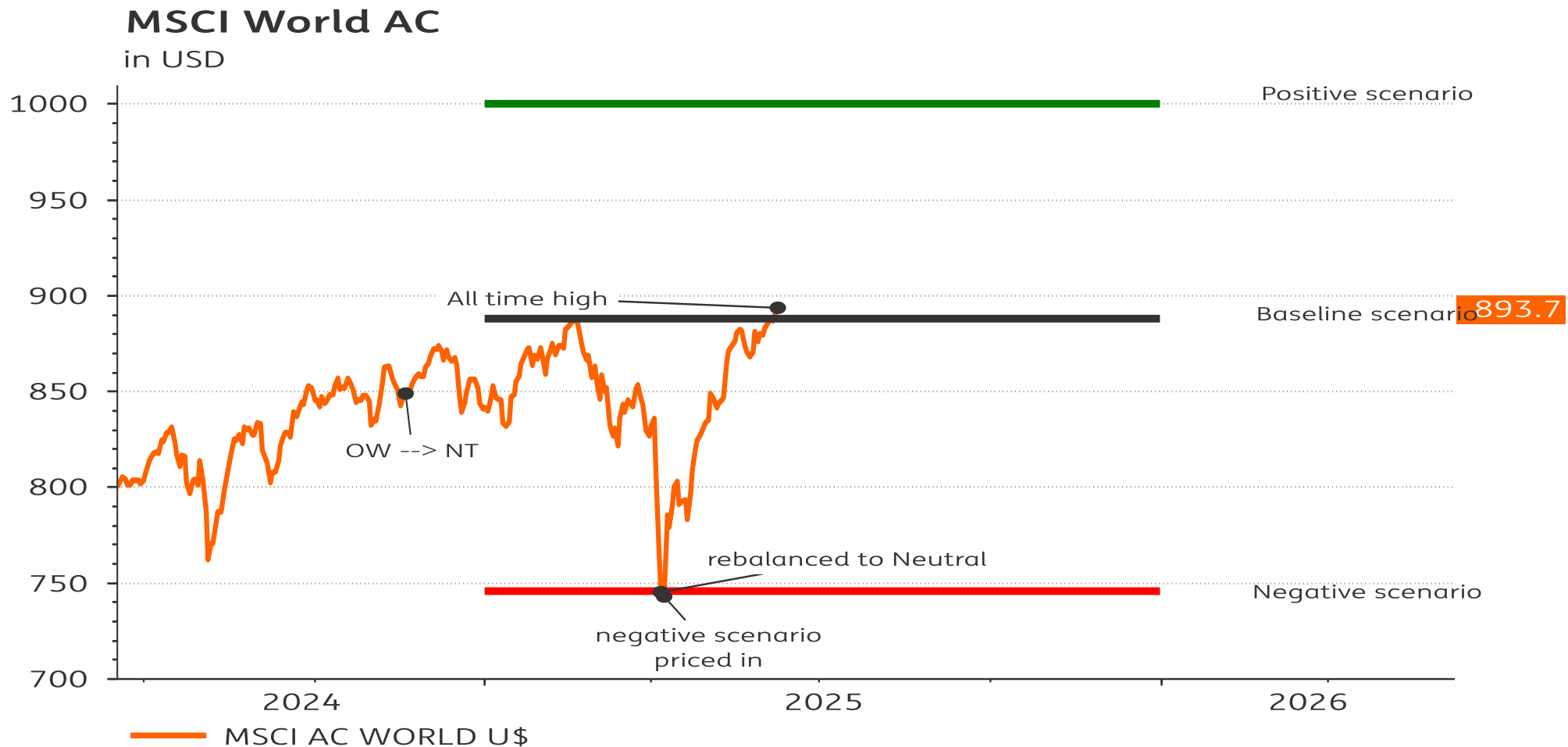
Source: LSEG Datastream, ING Investment Office , 13/06/2025

In our view, April's market sell-off was exaggerated



Source: LSEG Datastream, ING Investment Office , 09/06/2025

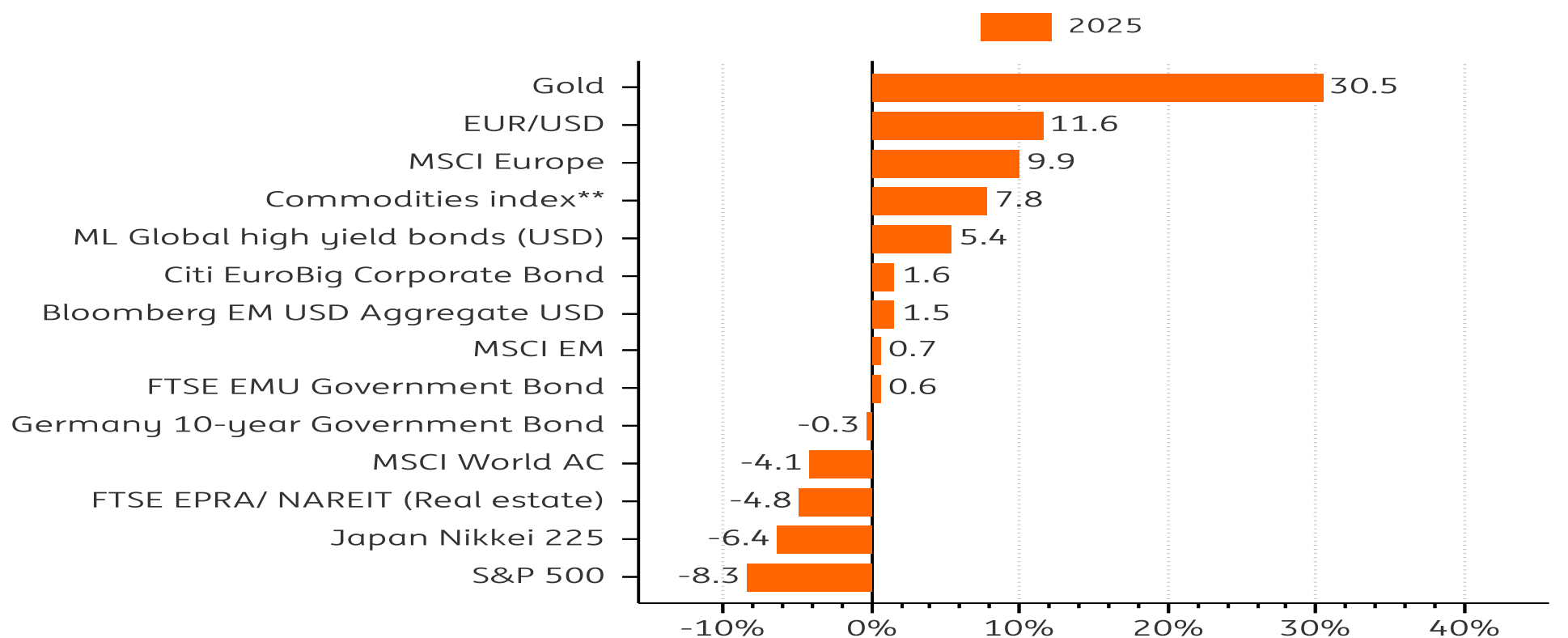
...and we took the opportunity to buy the dip in order to maintain our neutral exposure to global equity markets



Source: LSEG Datastream, ING Investment Office , 09/06/2025

USD weakness has been one of the key features of year-to-date asset class performance. Overall, diversification has proven effective

Performances main asset classes



*Total return in euro, gold excluded, EURUSD, EMD et Global HY. This is the variation of spot price/benchmark

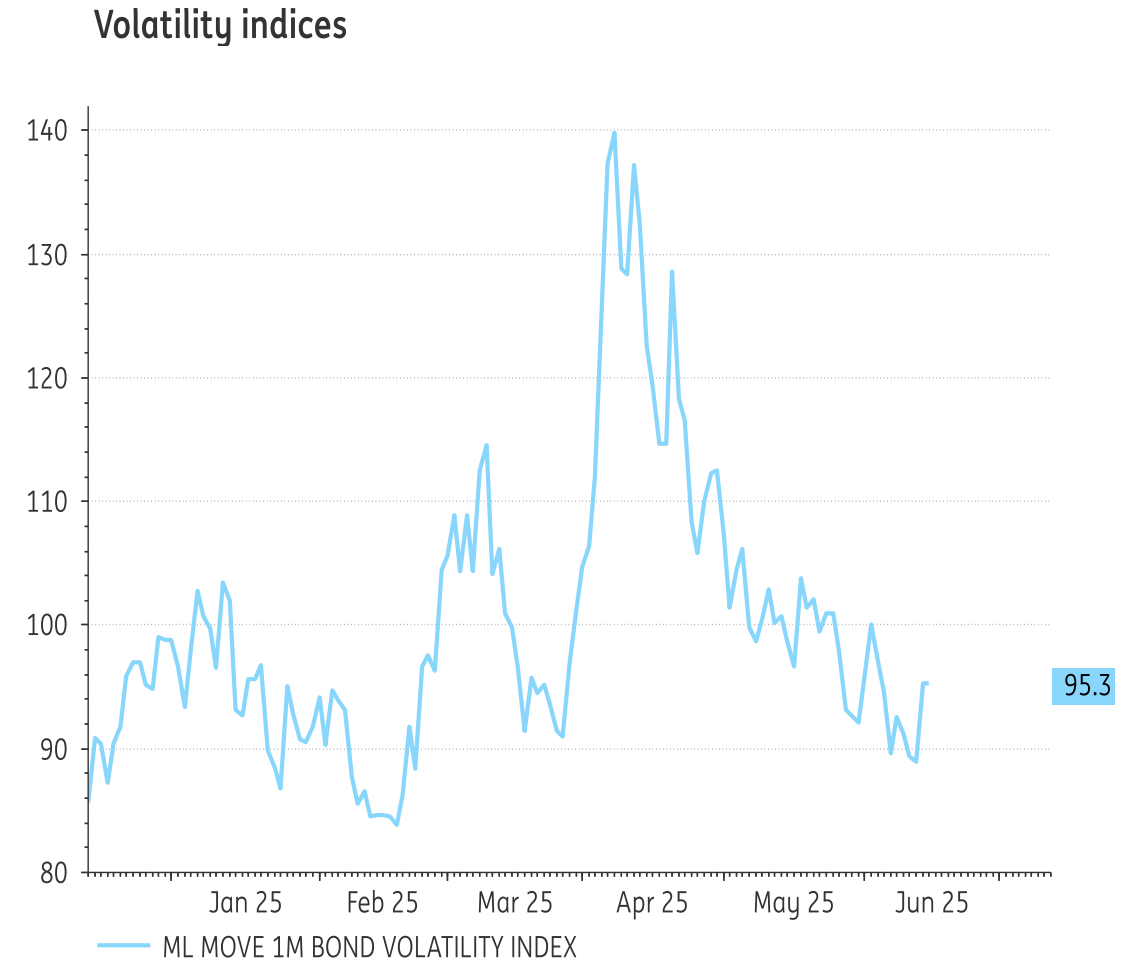
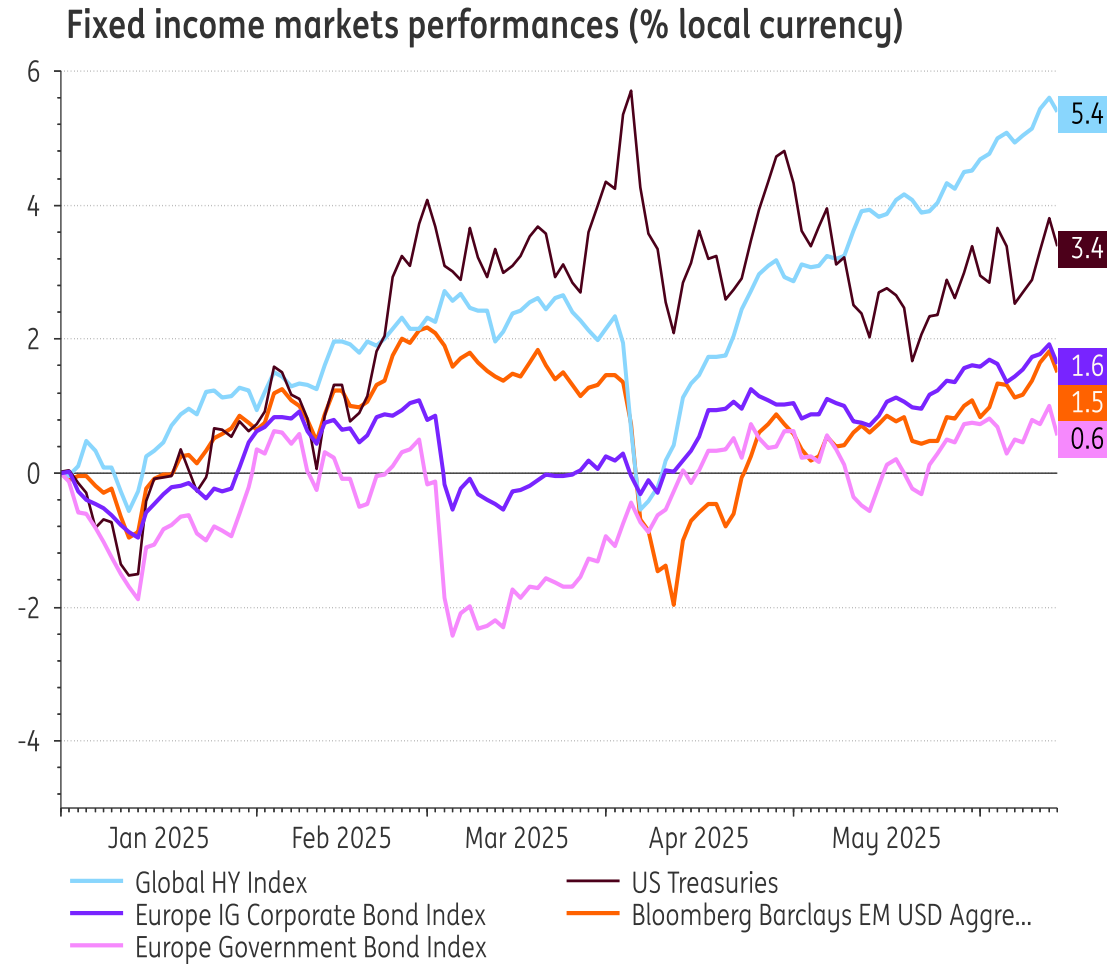
** EUR hedged TR

Source: LSEG Datastream, ING Investment Office, 13/06/2025

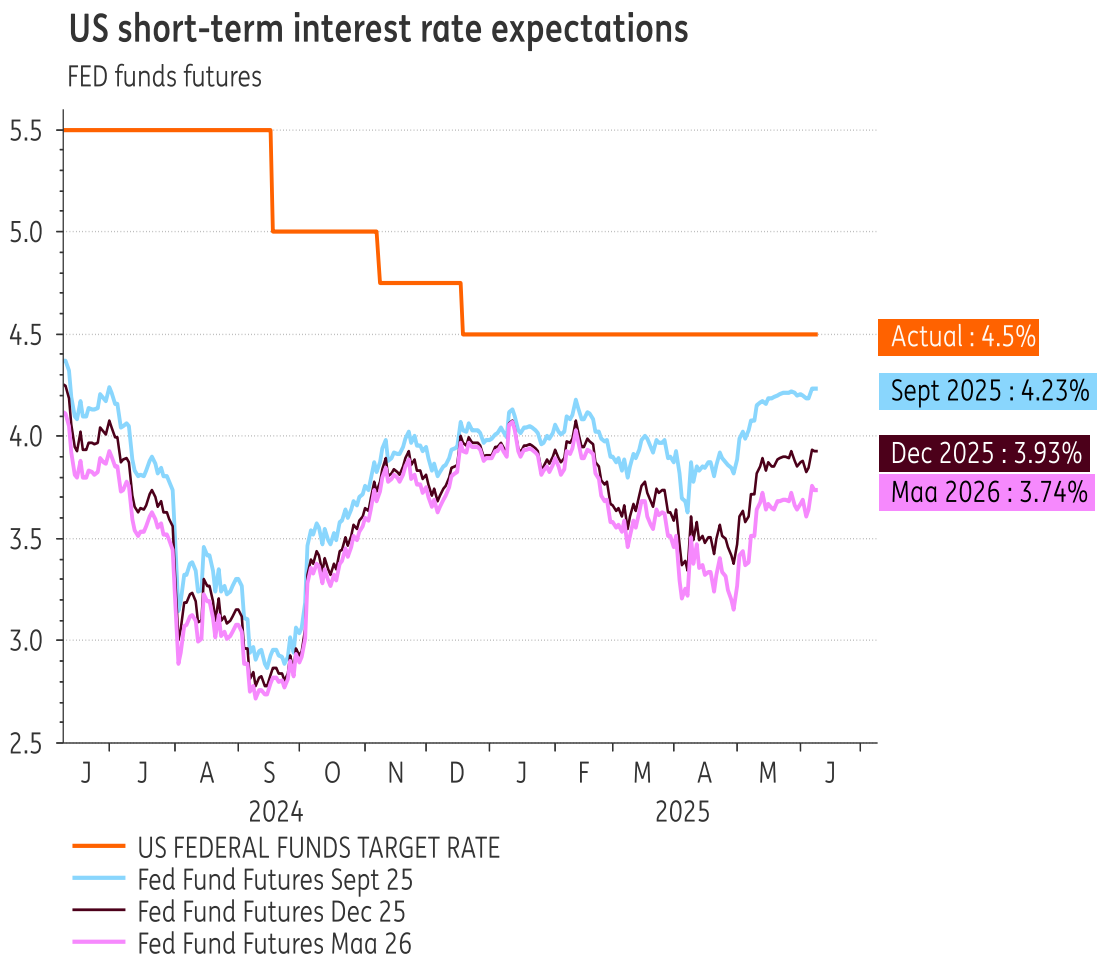
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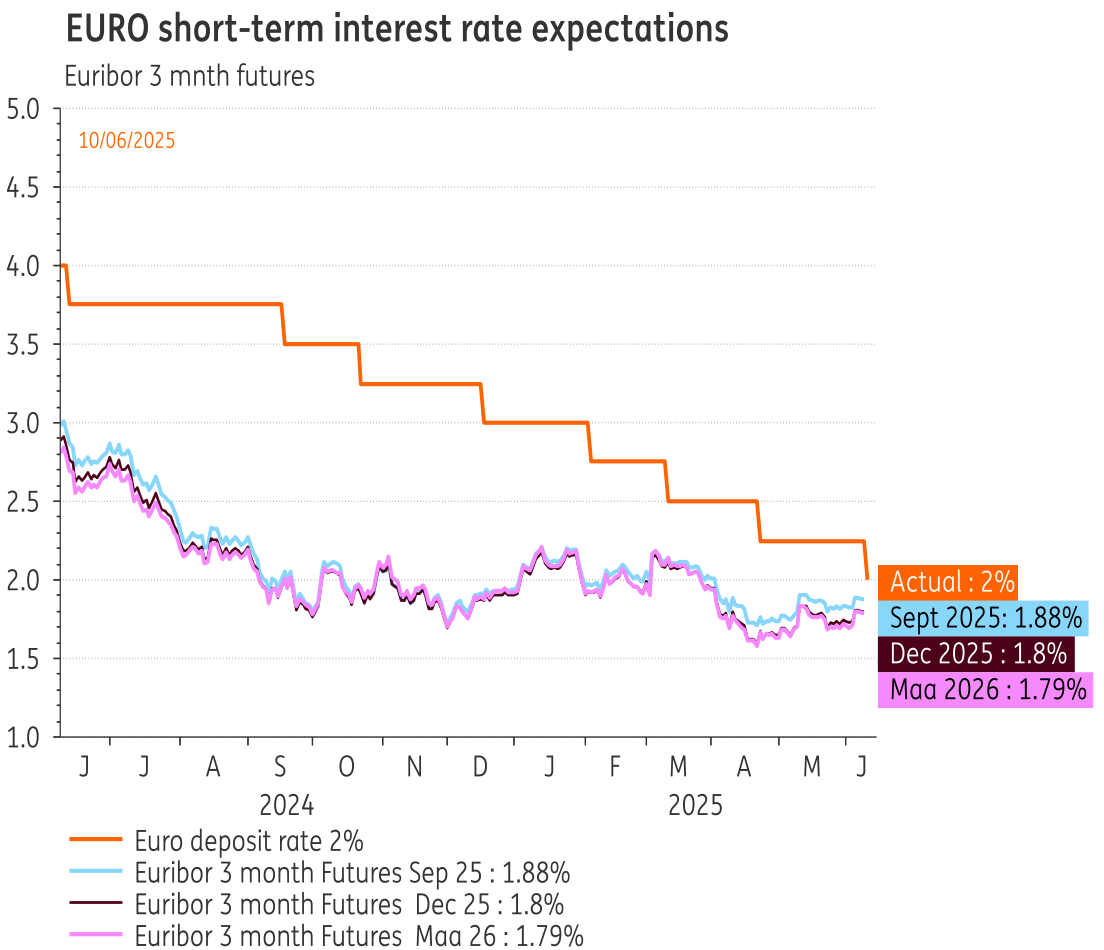
Most fixed income markets have posted positive year-to-date performance, but their volatility has been unusually high



Central bank rate cuts are providing a tailwind for fixed income markets

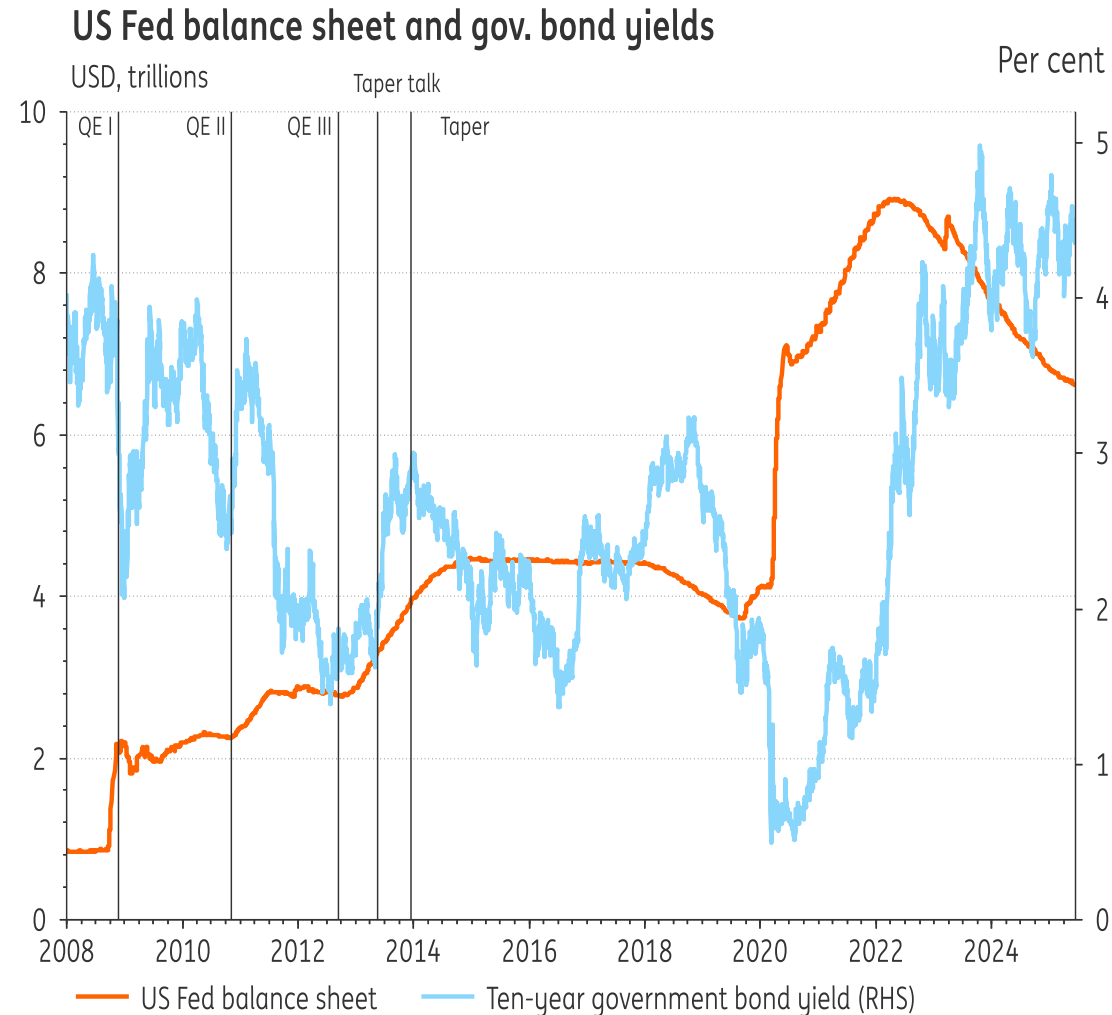


Source: LSEG Datastream, ING Investment Office , 10/06/2025

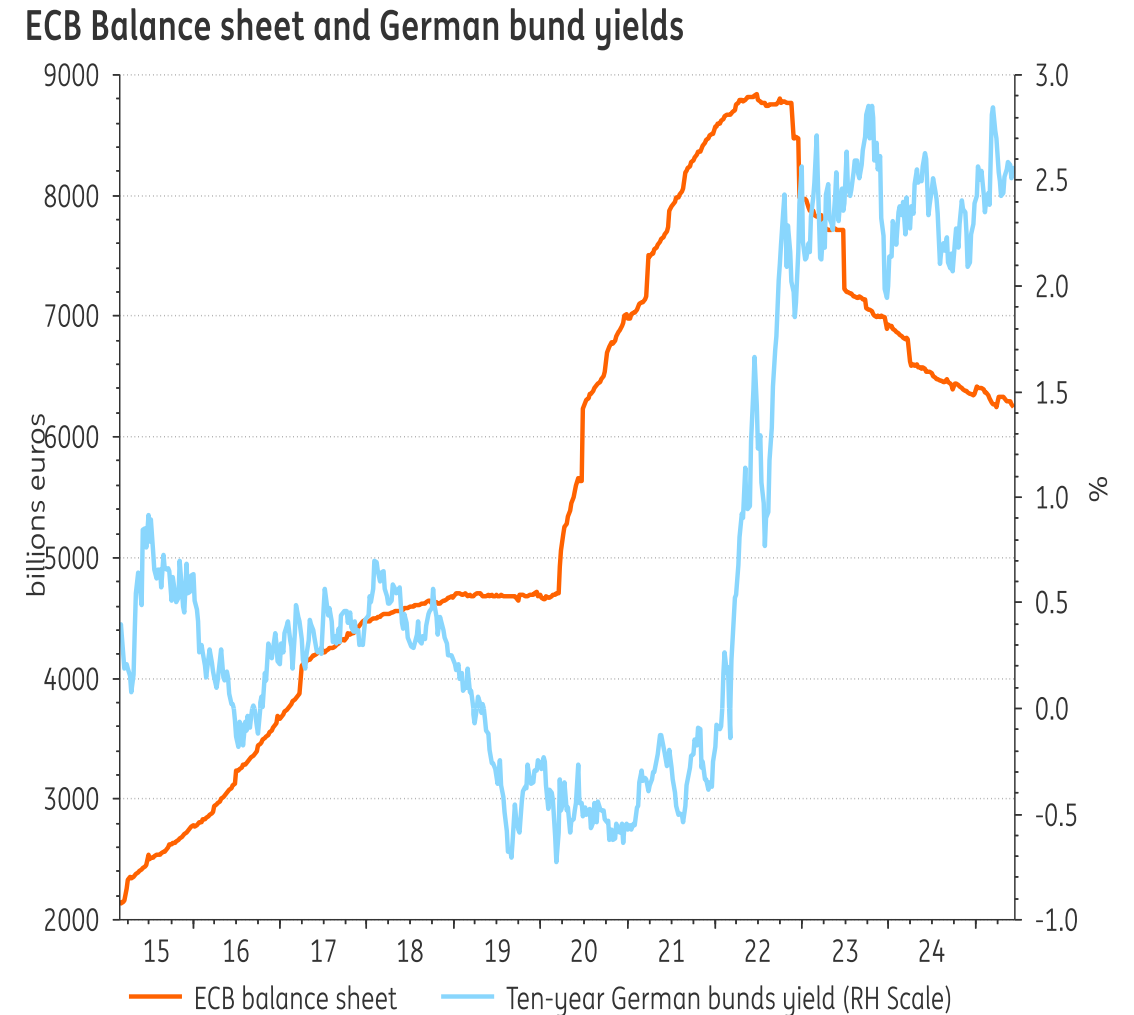


Source: LSEG Datastream, ING Investment Office , 10/06/2025

However, central bank balance sheet normalization is maintaining upward pressure on the long end of the yield curve

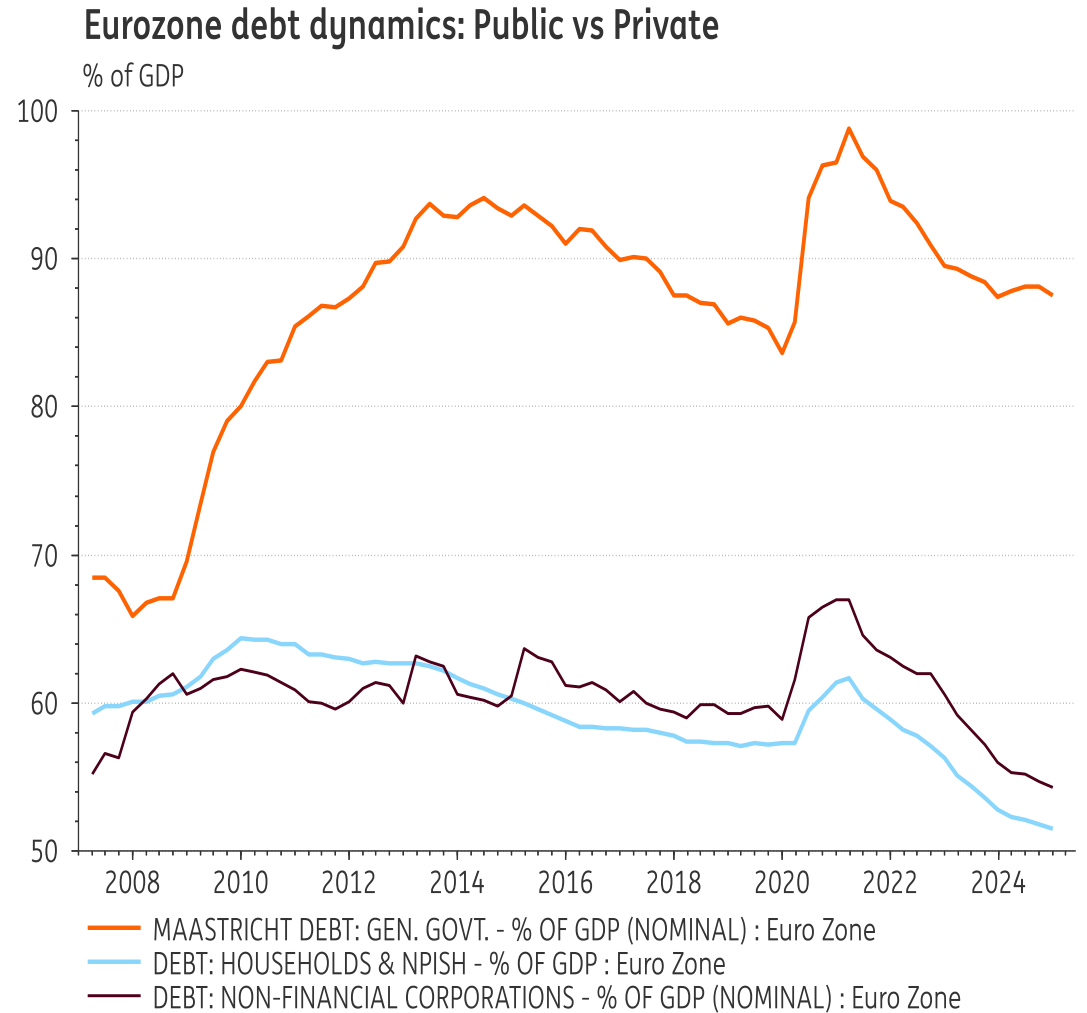


Source: LSEG Datastream, ING Investment Office, 11/06/2025

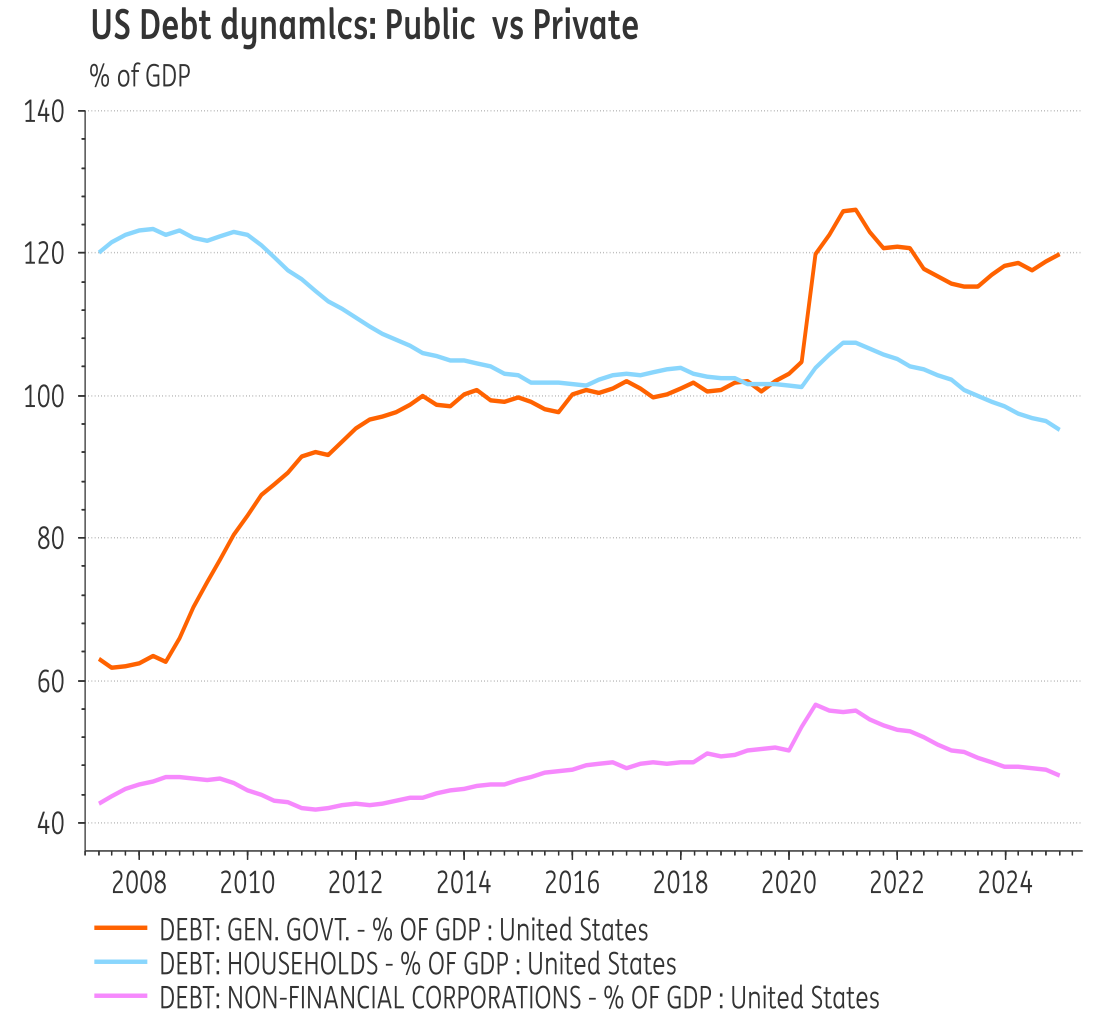


Source: LSEG Datastream, ING Investment Office, 14/06/2025

Debt sustainability concerns are also maintaining upward pressure on the long end of the yield curve

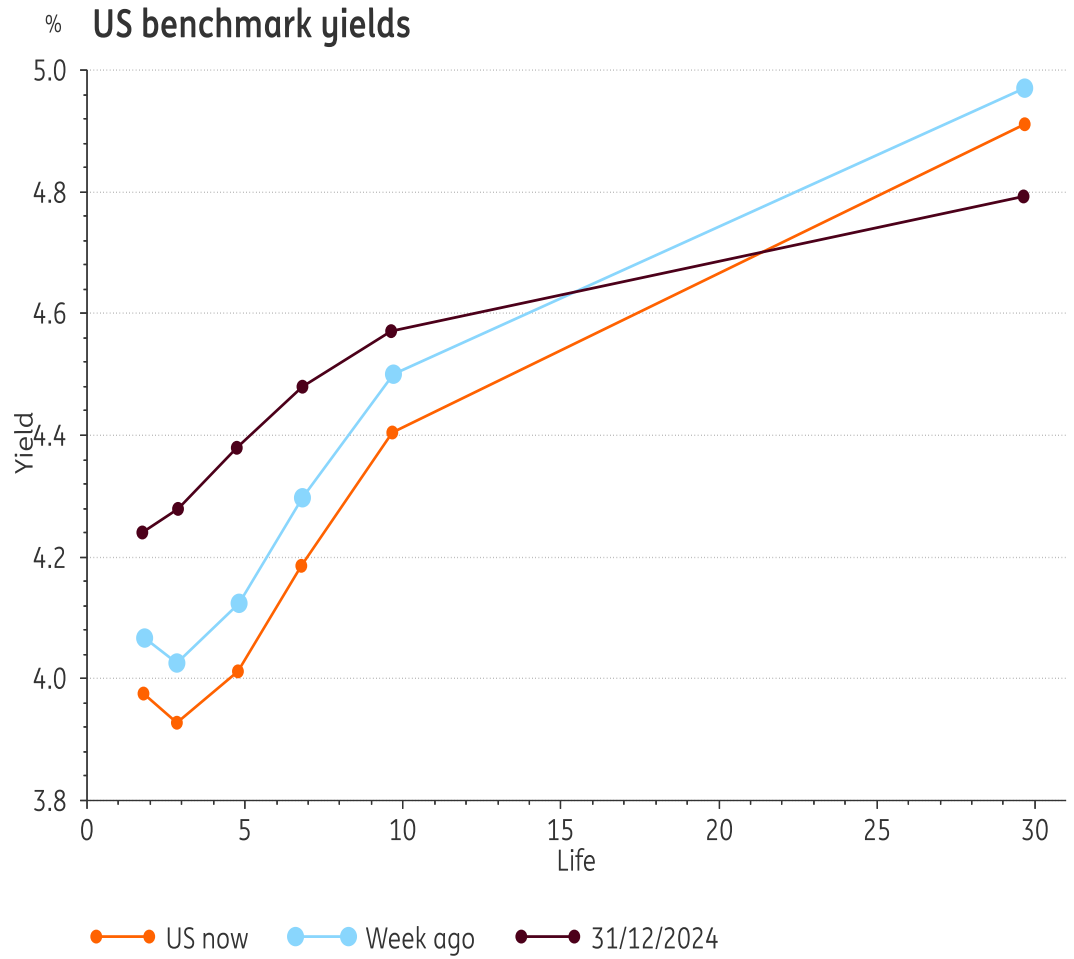


Source: LSEG Datastream, ING Investment Office, Q4 24

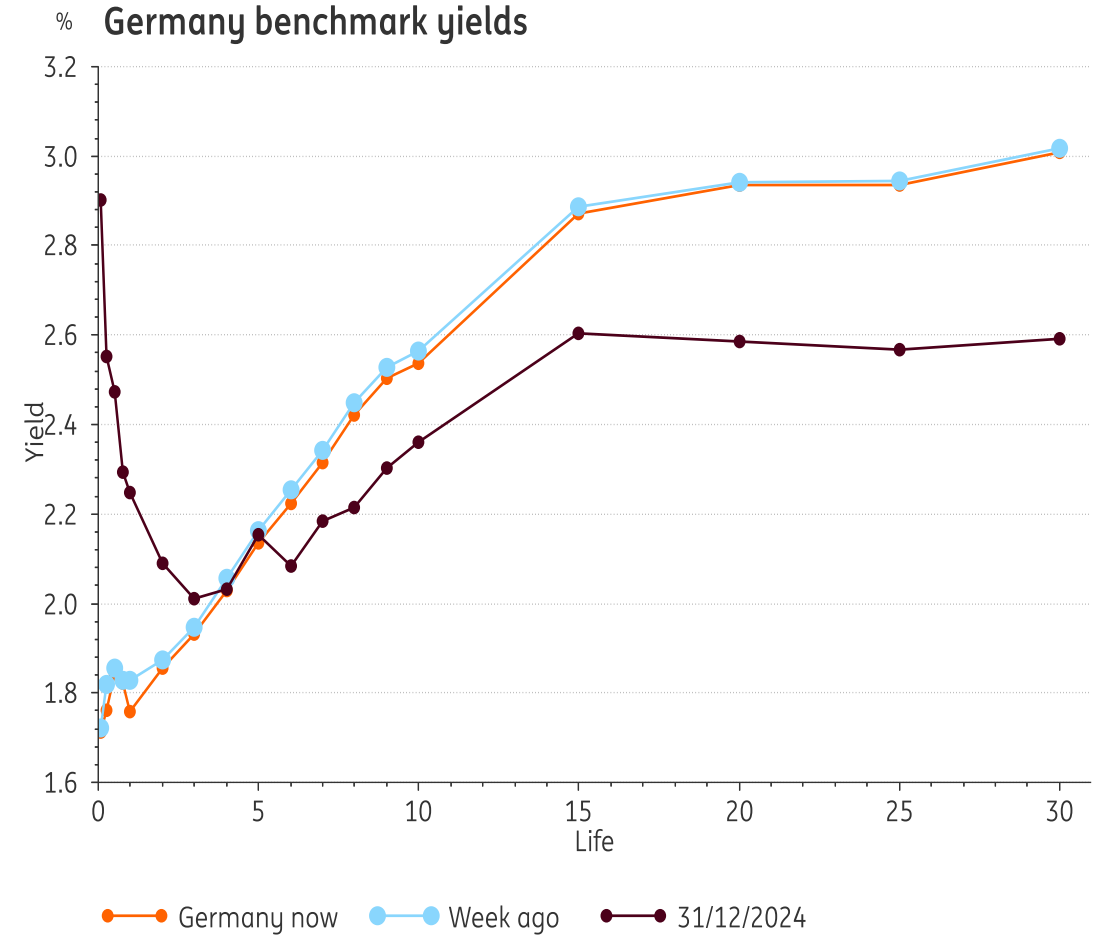


Source: LSEG Datastream, ING Investment Office, Q4 24

In this context, yield curves have steepened year-to-date

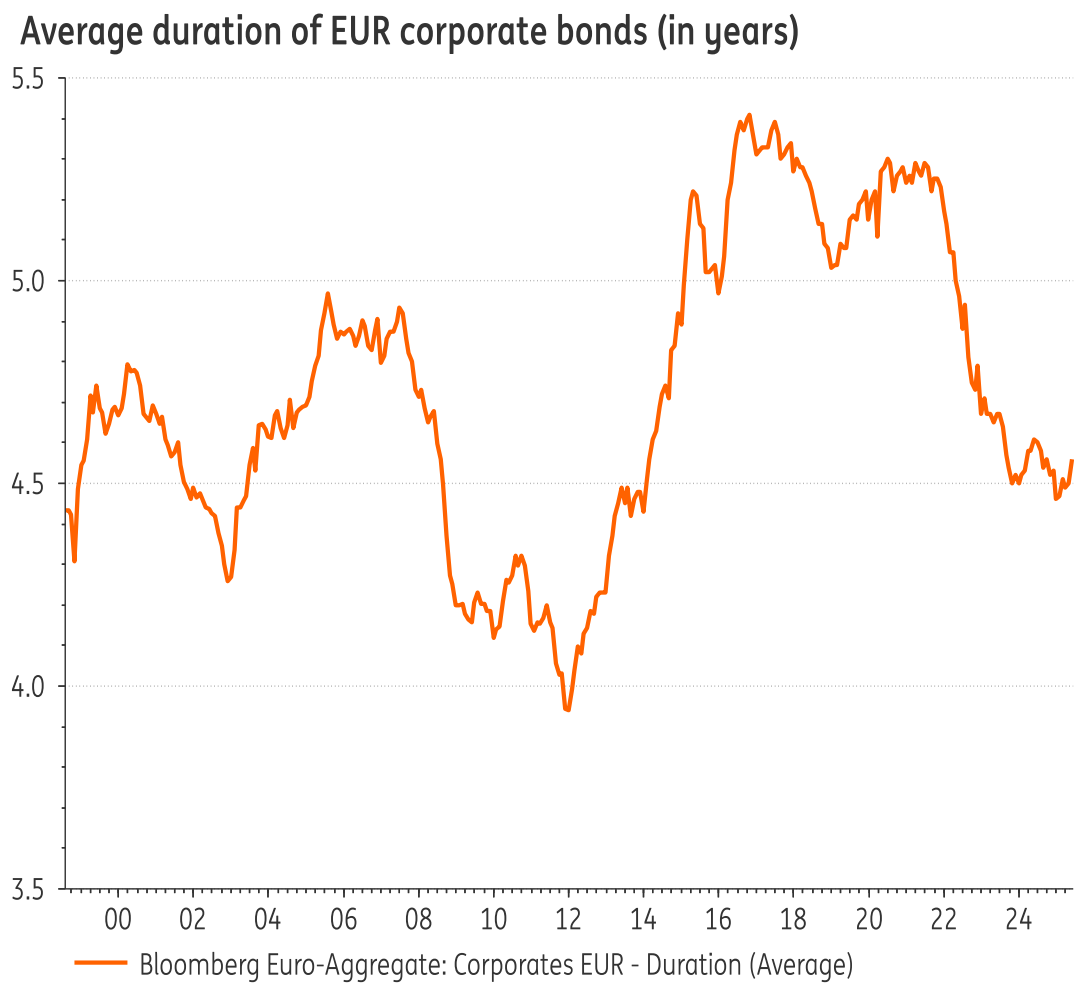


Source: LSEG Datastream, ING Investment Office, 13/06/2025

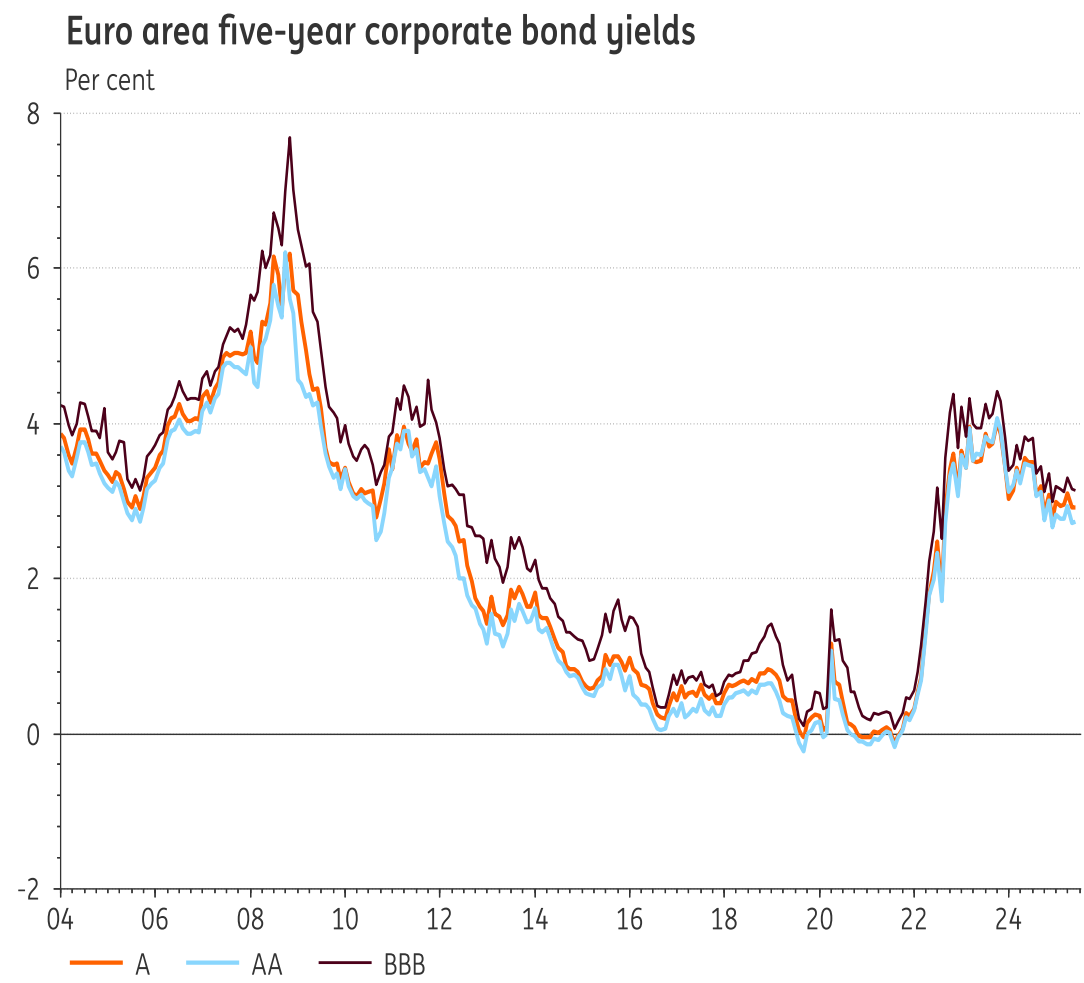


Source: LSEG Datastream, ING Investment Office, 13/06/2025

We prefer EUR investment-grade corporate bonds, which offer stronger fundamentals, lower duration, and higher yields compared to sovereign bonds



Source: LSEG Datastream, ING Investment Office , 13/06/2025



Source: LSEG Datastream, ING Investment Office , 12/06/2025

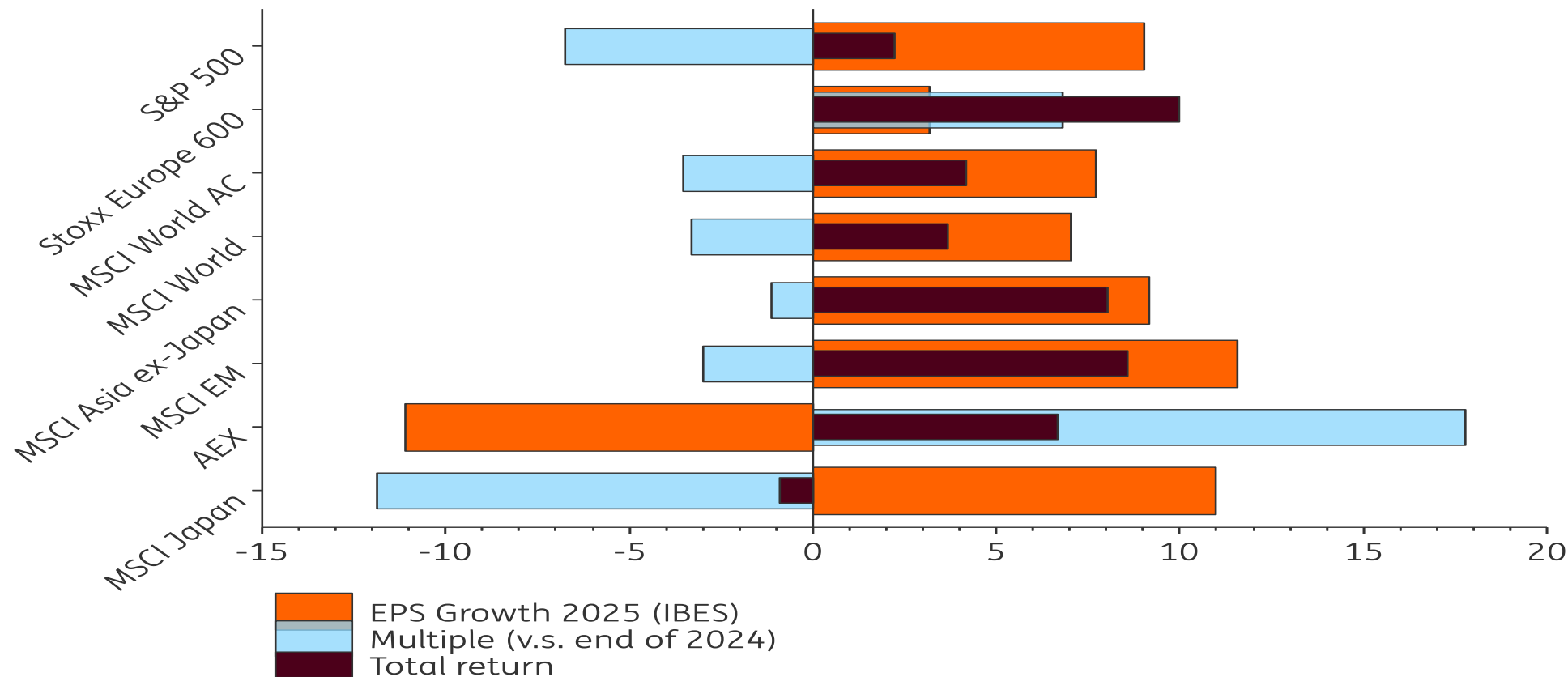
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In the U.S., performance has been primarily driven by EPS growth, while in Europe, it has been mainly supported by multiple expansion

Global equity return decomposition 2025

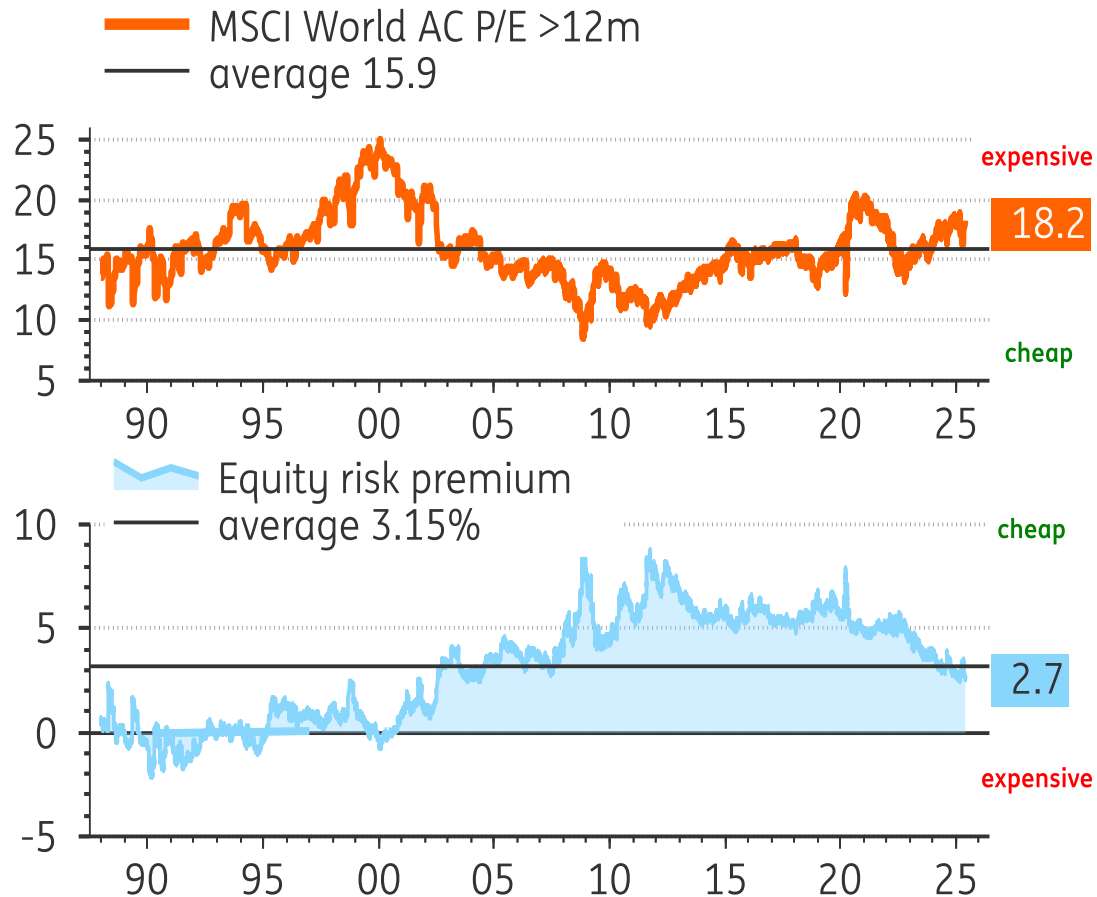
in local currency



Source: LSEG Datastream, ING Investment Office , 14/06/2025

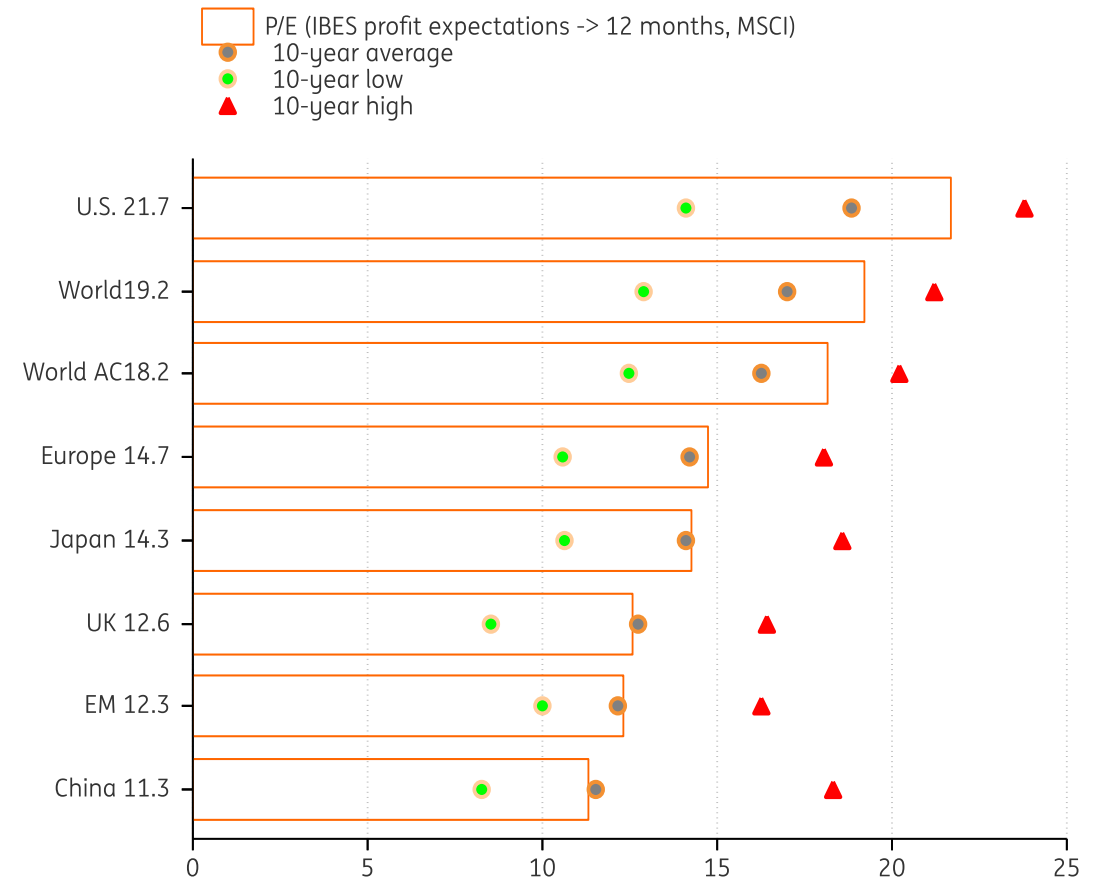
Equity valuations are generally back above their historical averages

Valuation and Risk Premium



Source: LSEG Datastream, ING Investment Office , 05/06/2025

Equity valuation by country/region

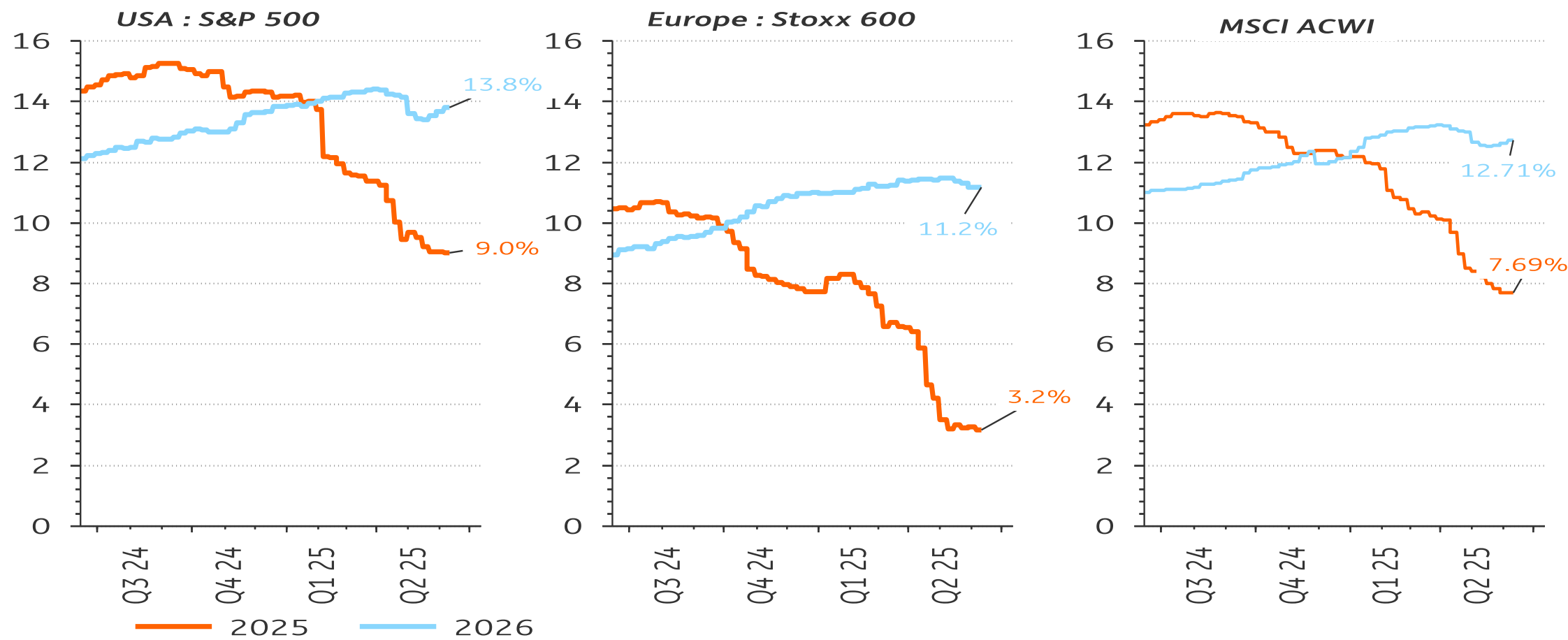


Source: LSEG Datastream , ING Investment Office 10/06/2025

Expected EPS growth remains relatively robust but could be revised downward if trade or geopolitical tensions were to escalate

Earnings growth expectations

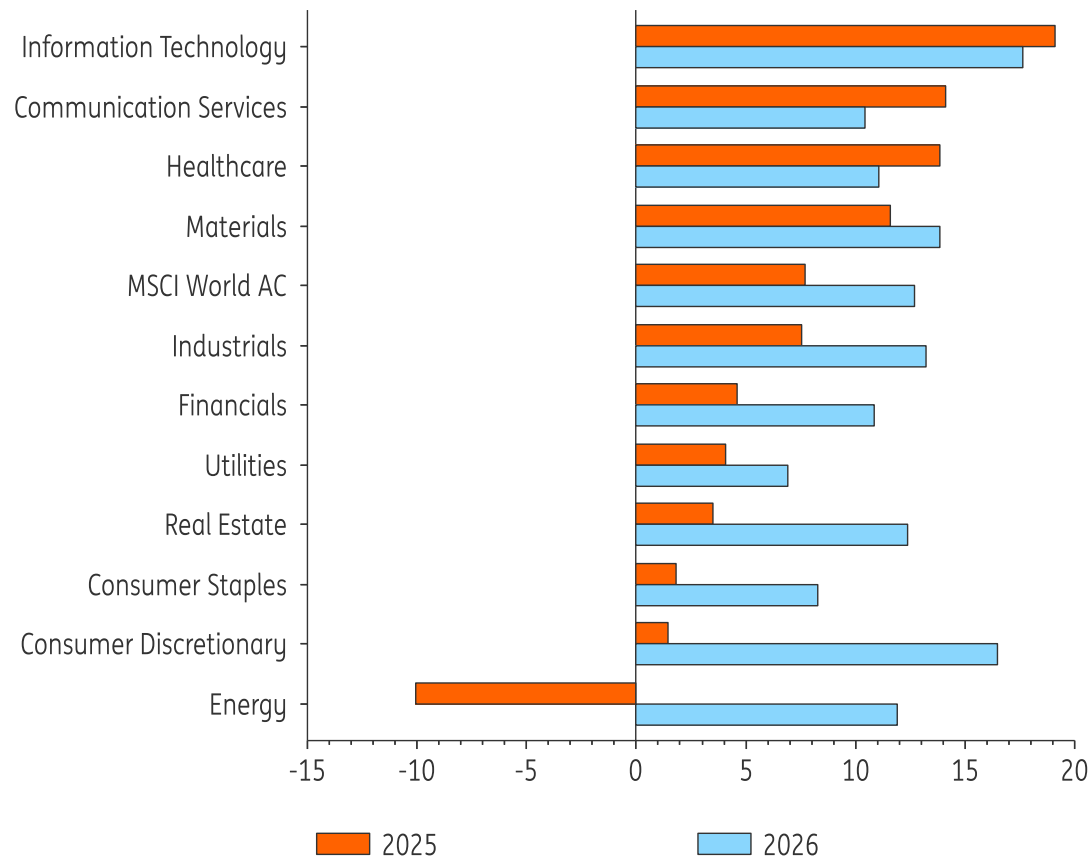
IBES consensus per calendar year



Source: LSEG Datastream, ING Investment Office, 14/06/2025

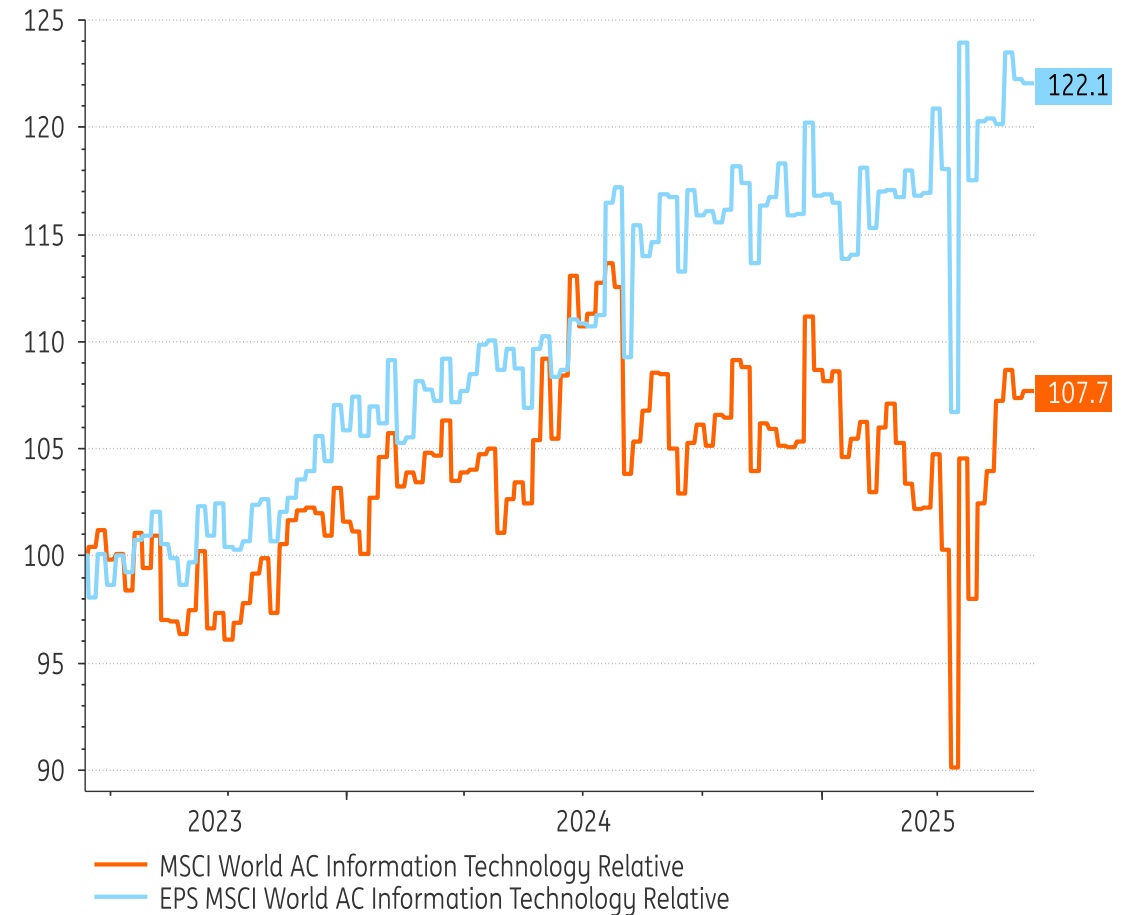
We see greater differentiation and alpha opportunities at both the sector and stock levels

MSCI ACWI earnings growth estimates by sector



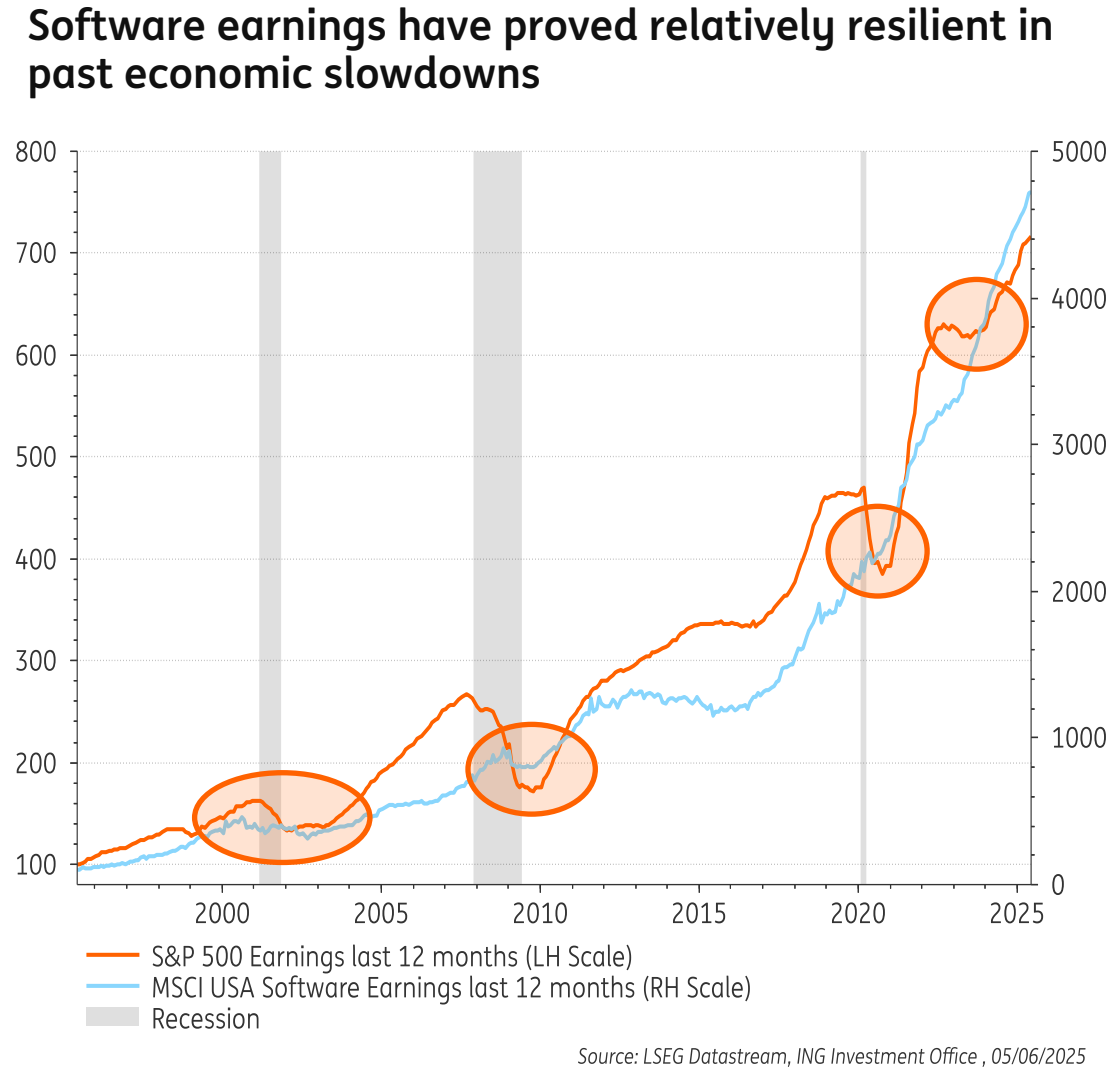
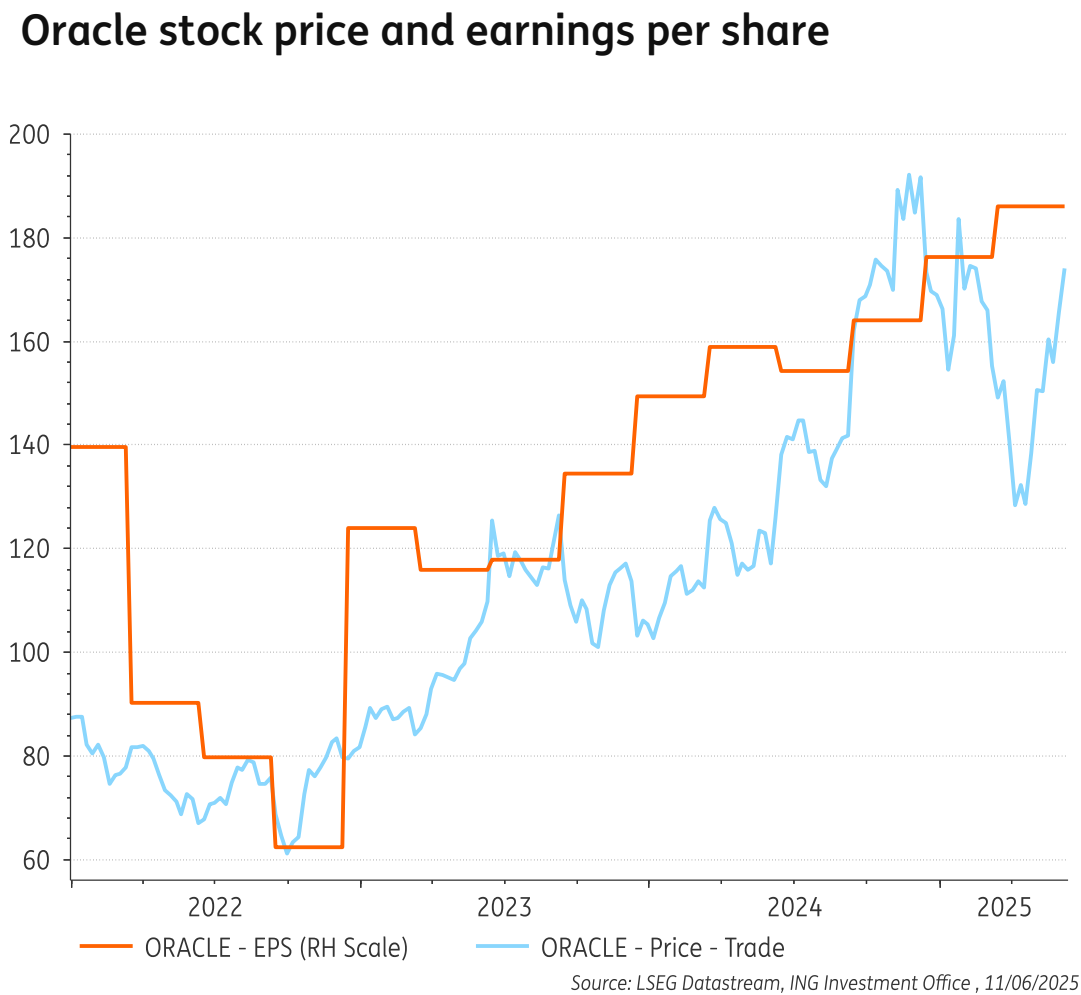
Source: LSEG Datastream, ING Investment Office , 14/06/2025

MSCI ACWI IT relative performance and earnings growth



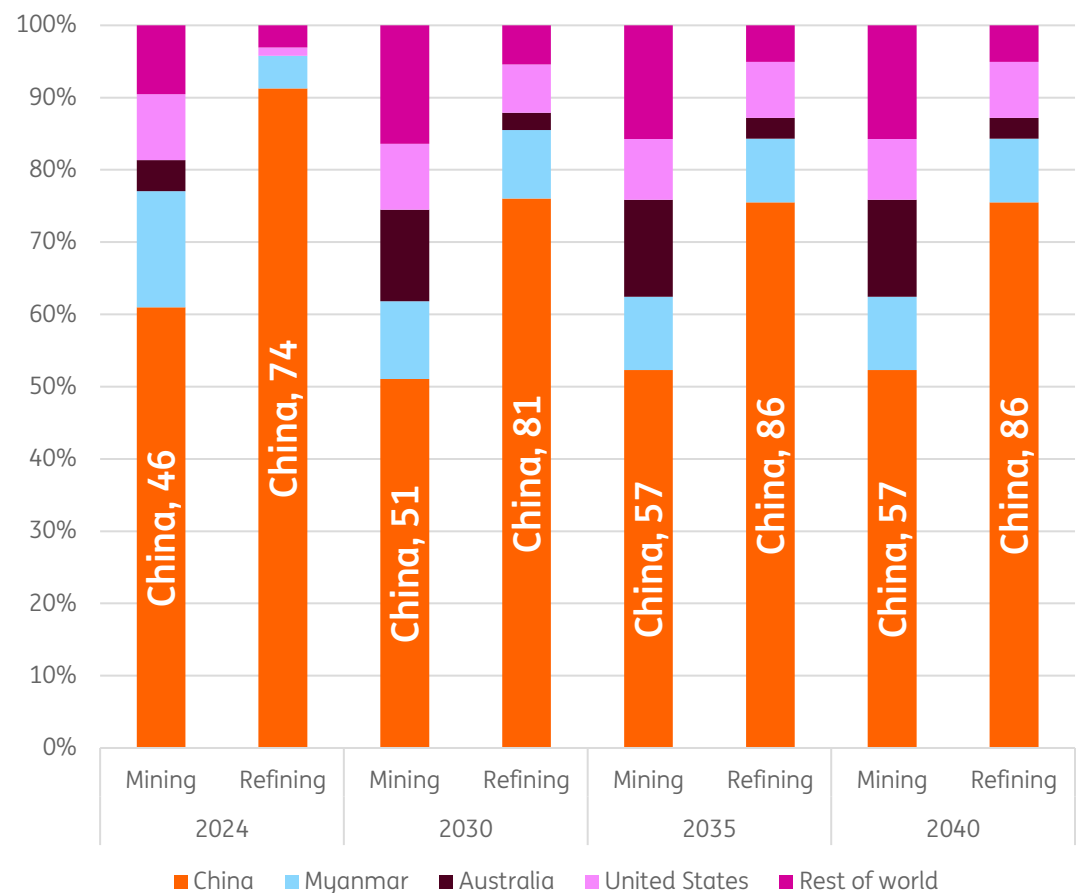
Source: LSEG Datastream, ING Investment Office , 14/06/2025

Oracle's earnings published last week have once again highlighted the resilience of the Tech/software sectors' earnings



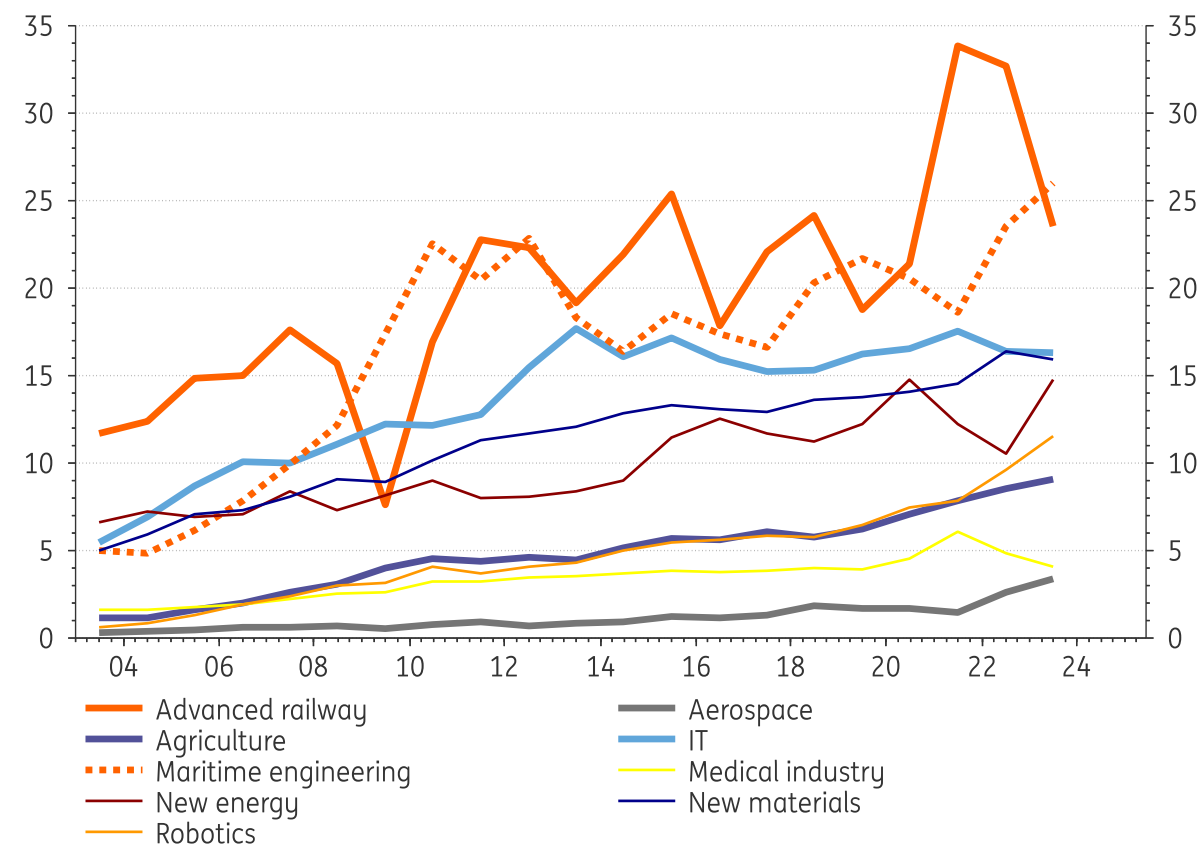
China dominates the production and refining of rare earth elements and has become a key player in many high-tech industries, giving it significant bargaining power in trade negotiations

Total supply for magnet rare earth elements*, (kt in % of total)



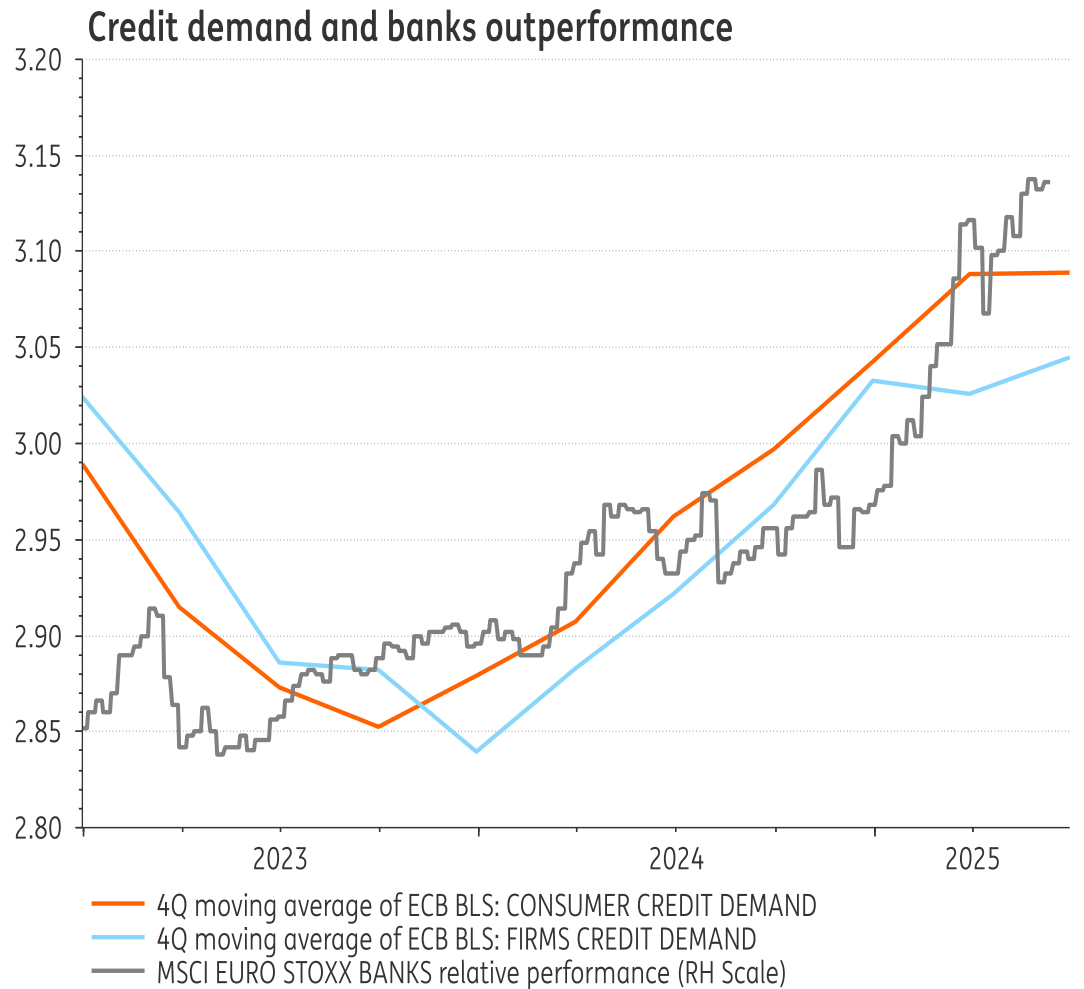
Source: IEA, Critical Minerals Dataset, IEA, Paris *Magnet rare earth elements cover praseodymium (Pr), neodymium (Nd), terbium (Tb) and dysprosium (Dy). Weight is indicated in rare elements content (REE) content, not in oxide equivalent (REO).

China high-tech industries (global market share %)

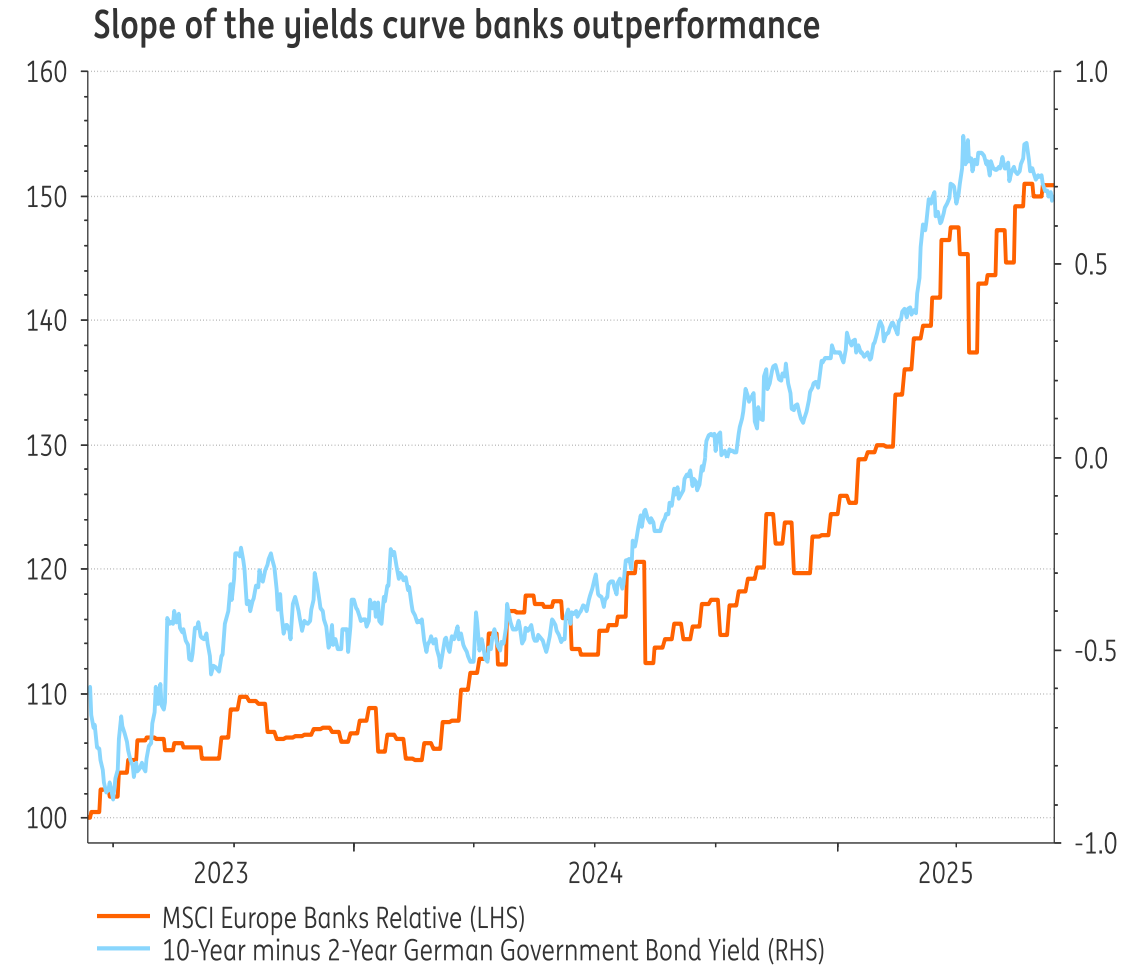


Source: LSEG Datastream, ING Investment Office

European financials remain well supported



Source: LSEG Datastream, ING Investment Office , Q2 25

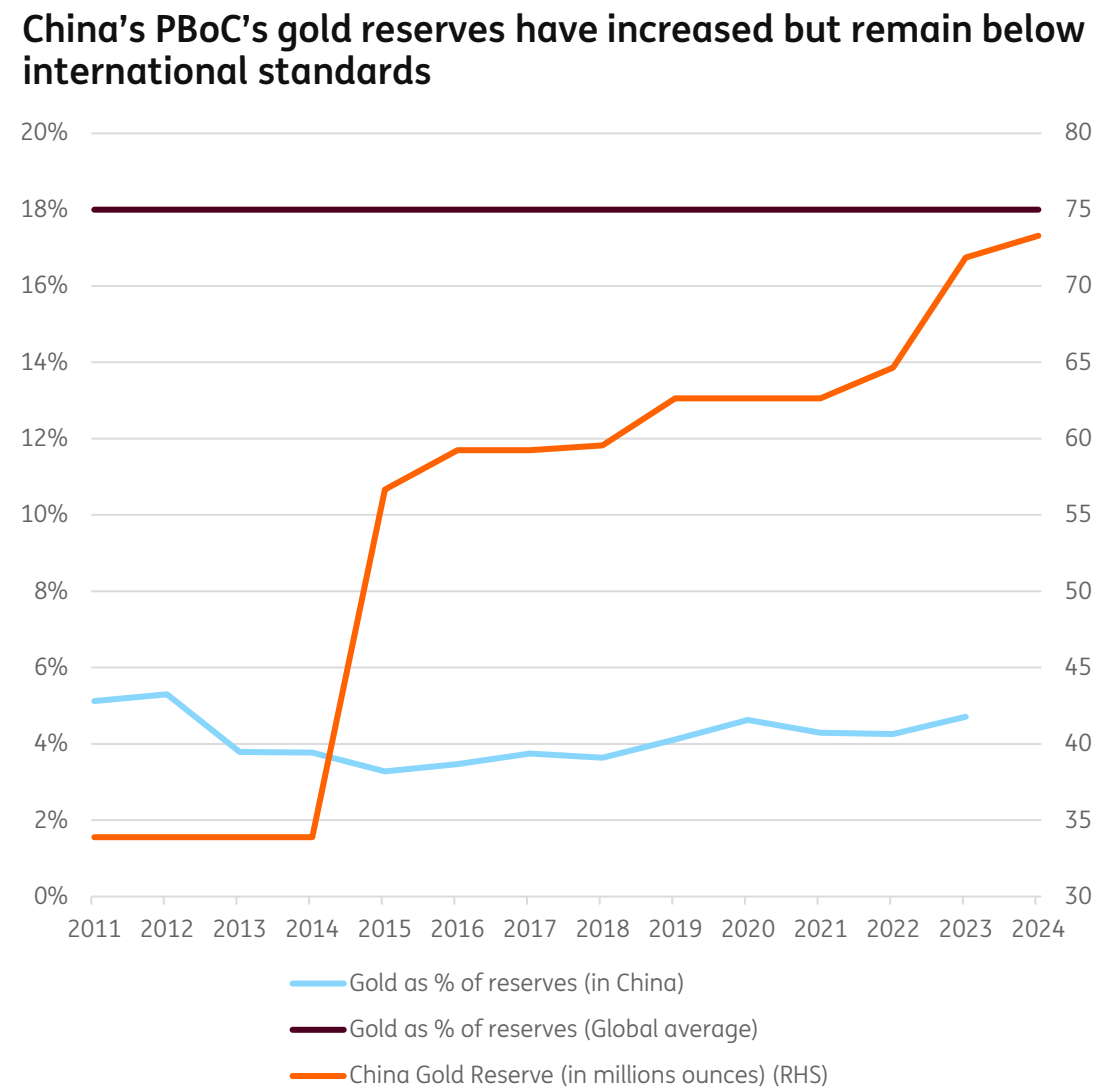
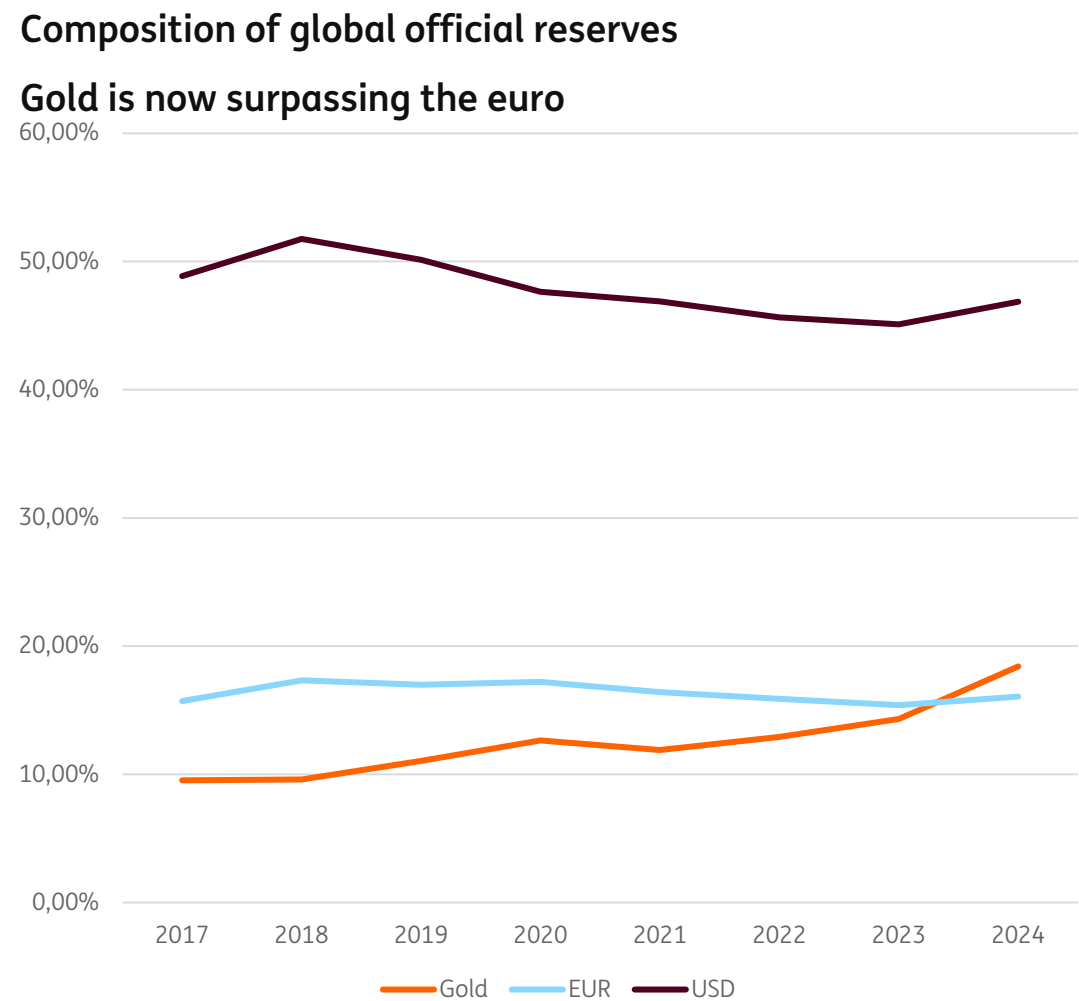


Source: LSEG Datastream, ING Investment Office , 05/06/2025

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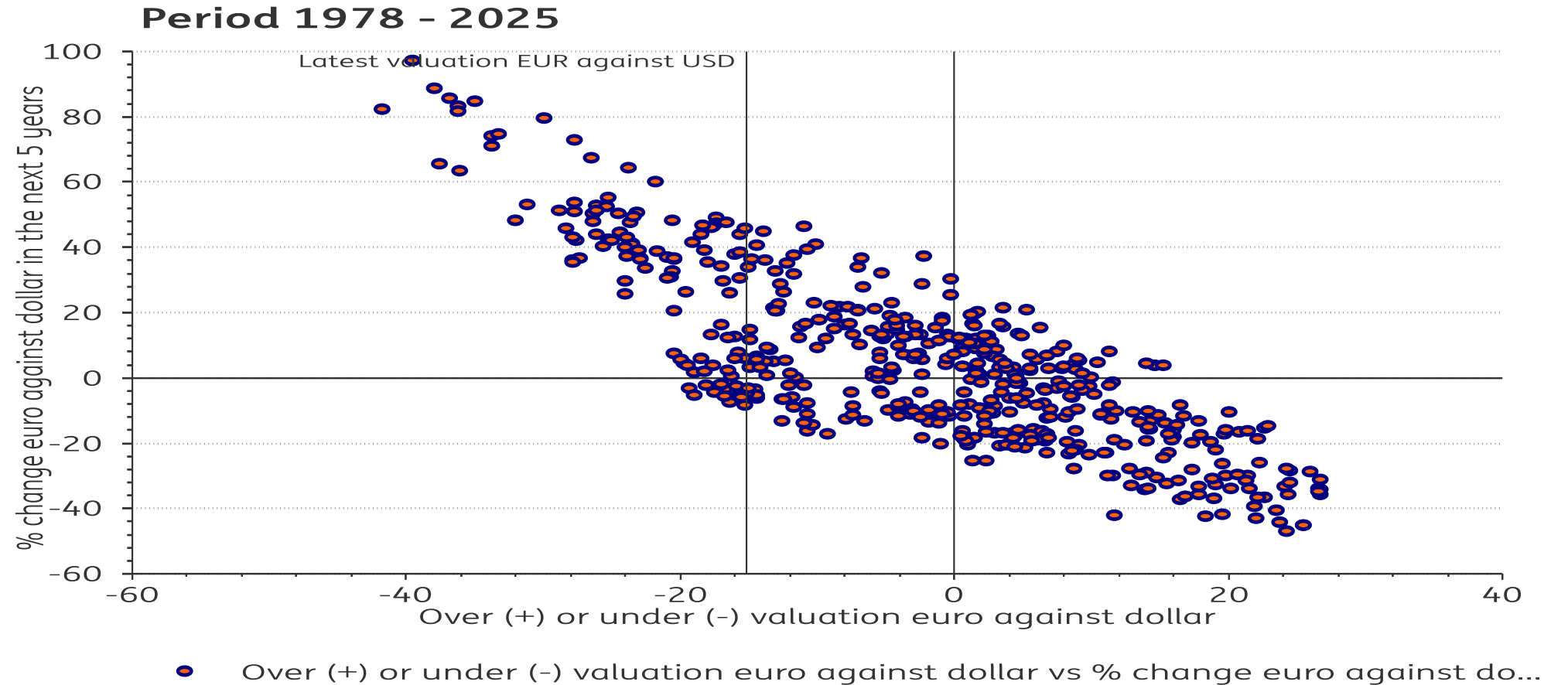
At the end of 2024, the share of gold in total official foreign reserves—including both FX and gold holdings—surpassed that of the euro



Source: (Both charts) ECB, IMF, World Gold Council, LSEG Datastream, ING Investment Office.
Data as of June 2025

In the short run, it is difficult to predict the evolution of the EUR/USD exchange rate, but in the long run, the EUR appears to be undervalued relative to USD

Over- and undervaluation of the dollar relative to the euro, according to the theory of purchasing power parity, and the development of the EUR/USD exchange rate over the next 5 years



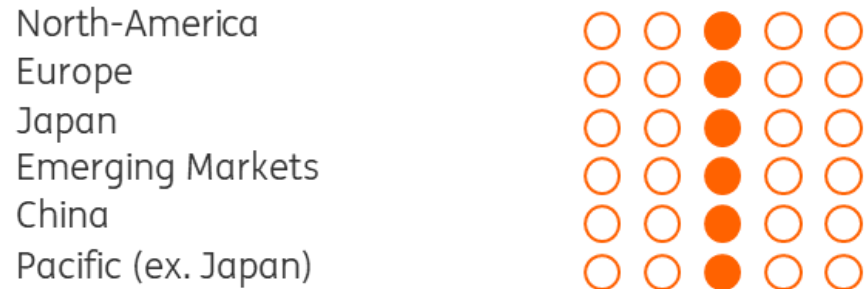
Source: LSEG Datastream, ING Investment Office , 11/06/2025

ING Investment Office Tactical asset allocation June 2025

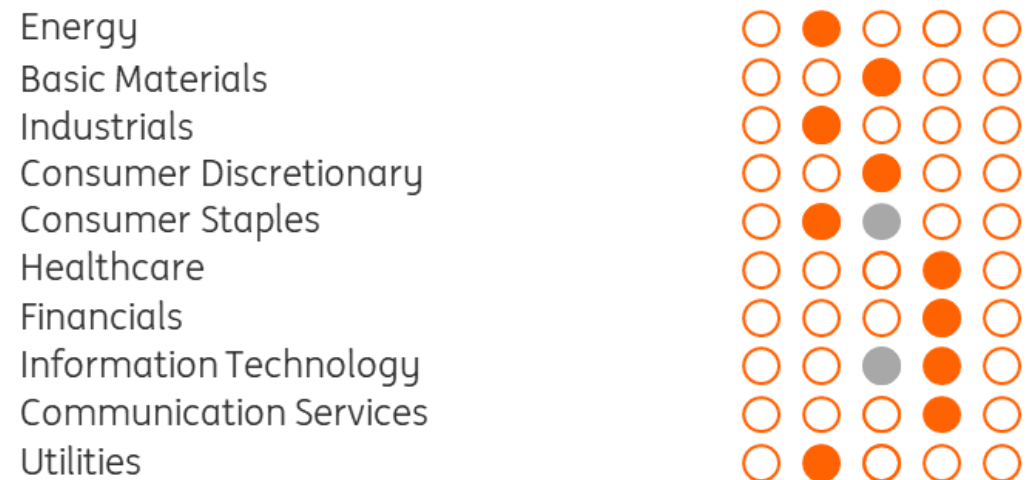
Asset allocation



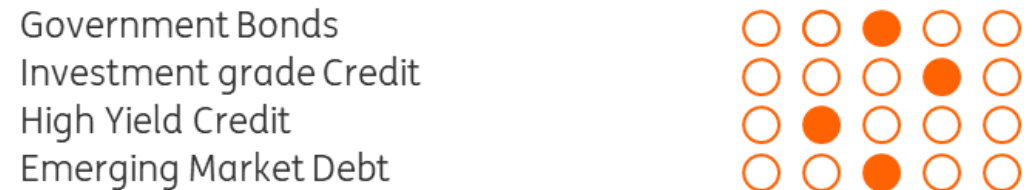
Regional allocation



Sector allocation equities

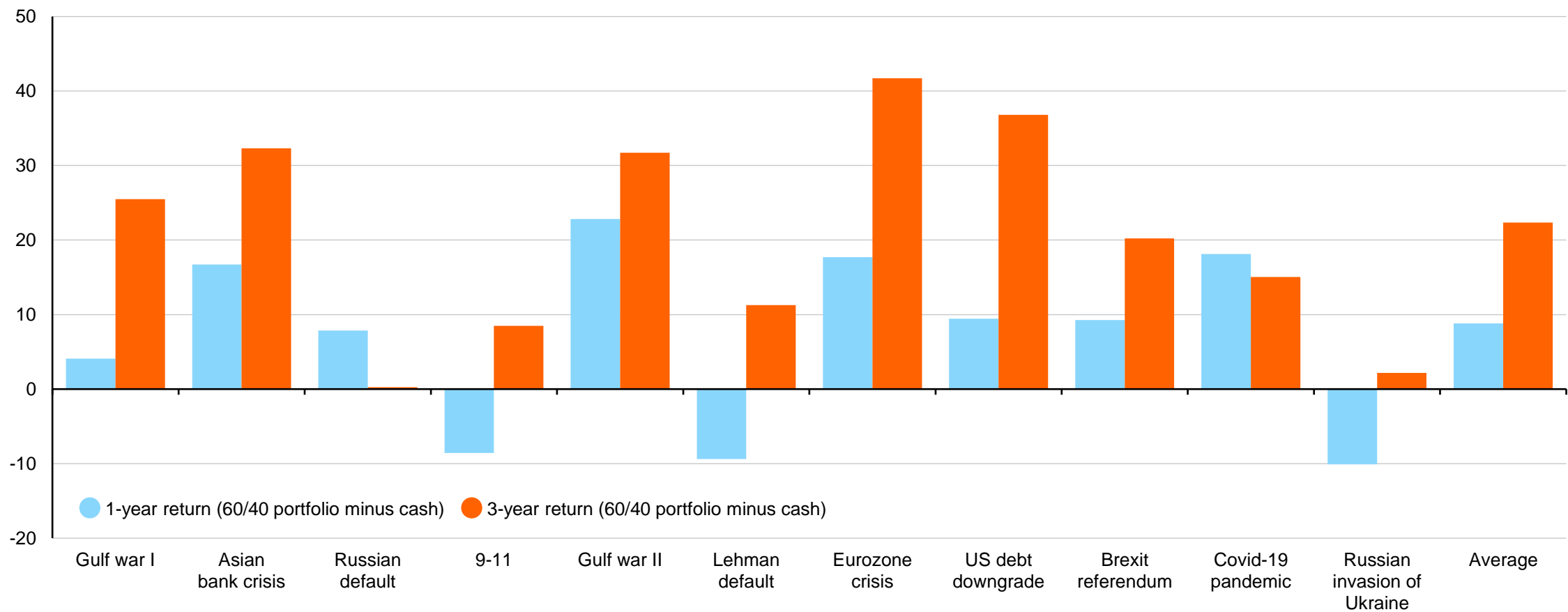


Allocation fixed income



Cash is rarely king after economic and geopolitical shocks

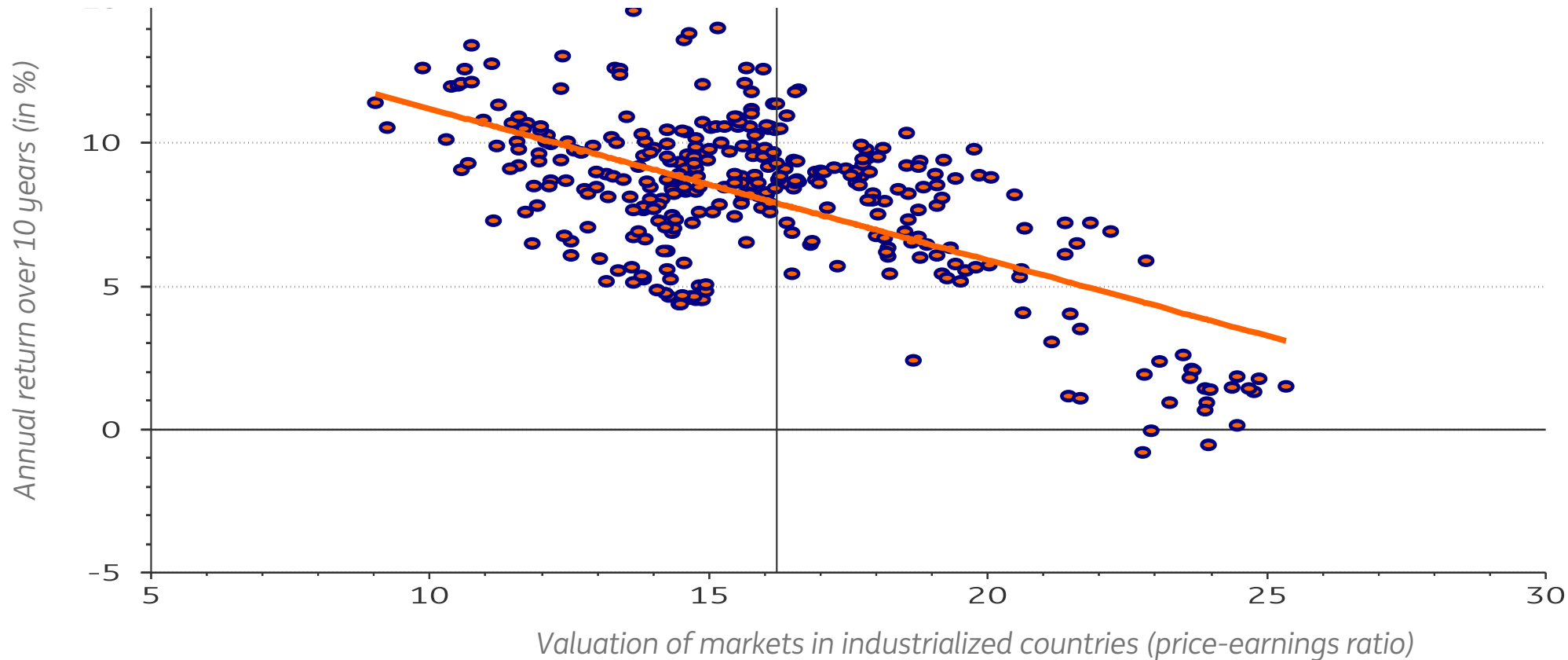
Subsequent 1-year and 3-year returns over cash after shocks (% total return)



Source: Bloomberg, S&P Global, J.P. Morgan Asset Management. 60/40 portfolio is constructed using S&P 500 Index and S&P 10-year US Treasury Note Futures Index. Cash: ICE USD LIBOR (3M). Return calculation begins at the end of the month prior to the shock. *Guide to the Markets - EMEA*. Data as of 31 March 2025.

Although equity valuations remain elevated, they continue to present compelling entry opportunities for long-term investors

DM Equities 10-Year Returns (annualized) vs. starting valua...



Source: LSEG Datastream, ING Investment Office , 09/06/2025

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