Investment Outlook 2020 aims to answer two questions: ‘How does the future look in the medium-long term?’ and ‘Which lessons did the last decade teach us?’ You will of course also find our return expectations for 2020.
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Good news for investors
But geopolitical uncertainties, including the trade war between the US and China and Brexit, slowed down economic growth to such an extent that the central banks quickly changed course again. They nevertheless turned on the money tap once more. Not only did the Fed and the ECB increase their stimulus efforts, but other central banks did so too. In our June update of last year’s annual outlook, we therefore had a more positive message for investors. Interest rates would remain low for longer, which would boost the valuation of riskier assets such as equities. And that’s what happened.

Predicting is not easy, however. If we step into the time machine and go back ten years to the end of 2009, we see that the wounds of the global financial crisis are still fresh. A global depression was averted with the aid of unprecedented stimulus measures by governments and central banks, but the prospects are at best moderate. For us, both the economic conditions and the market situation were new after such a severe crisis. But we stuck to the consistent, process-driven approach that we and our investment team have been following for years.
Our investment outlook for 2010 was entitled ‘A quiet year’ and included the text: “The recovery of the world economy, which started in the second half of 2009, can continue in 2010. Although scaled back, stimulus measures by governments and the continued accommodating monetary policies of central banks still provide support for the recovery. This does not alter the fact that the growth rate is low in the United States (US) and Europe. The strong growth of emerging markets remains a driver for the global recovery.”

It therefore seems that not much has changed in ten years. Nevertheless, a great deal has happened. Just think about it: we have survived the Greek crisis, the euro crisis, the Ukrainian crisis, a brief oil price crisis and a Brexit referendum. But despite all these crises and uncertainties, many investors can look back on years with fantastic returns. It could go the same way again in the coming ten years. Investors are in constant doubt about the future, because we are time and again faced with new, unknown threats, the risks of which we initially overestimate.

If you had predicted such returns ten years ago, you probably wouldn’t have been taken seriously, especially when you subsequently realise that global economic growth has fallen to a structurally lower level since the crisis. This is not only the result of the remedial activities following the sharp economic downturn, in combination with stricter regulations.
for banks, but also of structural changes such as the ageing of the population. To put it simply, economic growth can only pick up with a growing labour force or an increase in labour productivity.

Ageing an inhibiting factor
In most developed economies, the ageing population means that we are coming up against the limits of growth, certainly where the growth of the labour force is concerned. Important emerging markets such as India and China cannot escape this either. Moreover, despite all technological developments, labour productivity growth has already been disappointing for twenty years.

The central banks have played a key role in combating all the above-mentioned crises of the past ten years. That role of crisis manager was perhaps most clearly played by Mario Draghi, who until recently was the president of the ECB Governing Council. After all, it was he who, with his ‘Whatever it takes’ speech on 26 July 2012, not only put a floor under the exchange rate of the euro, but also gave the go-ahead for an unprecedented monetary experiment. A series of interest rate cuts and controversial stimulus measures have led to a situation that many economic scientists thought was impossible.

Many bonds cost investors money
Who would have thought that one of the ECB’s policy rates would fall well below zero, as well as the yields on eurozone government bonds? Or that globally the yields on 30% of all Investment Grade rated corporate bonds could turn negative? And that while the total amount of debt in the world has risen from $172 trillion at the low point of the global financial crisis in 2009 to more than $246 trillion at the moment. In the same period, the ratio of public debt to gross domestic product (the debt ratio) increased from 300% to 319%. At the beginning of this century, these figures were still $84 trillion and 228%. Once again, it turns out that anything can happen. In short: for investors, these were ten exciting and fascinating years, which are described perfectly by last year’s investment theme (‘staying on course despite headwinds’).

There is no doubt that, as was so often the case in the past, we are facing a wall of worry. Just consider Brexit, the trade war between the US and China, the economic slowdown and the decline in corporate profits. In that respect, not much has changed compared to ten years ago, even though some of the worries are different. We assume that if they shift to the background, new worries will again appear on the horizon. Doubts about the sustainability of capitalism, to which we owe much of the growth, are growing. After all, prosperity does not equate to well-being, which means that polarisation and populism are gaining in strength. Also consider the increasing awareness (and necessity) that the earth needs protecting from us humans. We are reaching our limits in more and more areas.

High debts don’t have to be a problem
It is therefore not surprising that our average economic growth expectation over the next ten years is lower than the average for the past ten years. But this does not mean that we will be any less happy or prosperous. Just look at Japan. The size of the gross domestic product (the total economy) is hardly growing, but the per capita prosperity of the shrinking population is growing faster than in most other countries. In our main future scenario, inflation and thus interest rates will remain low for a long time to come, but will not fall much further. As long as the GDP rate is higher than the (nominal) interest rate, high and increasing debt does not have to be problematic.

Weak growth and the interest rates kept artificially low by central banks are expected to spur...
governments on to higher spending in order to boost growth. Moreover, it could be said that public debt has not increased at all if you assume that the bonds that have been bought on a massive scale by the central banks will never be repaid. We expect the central banks to remain active with their stimulus programmes in the coming years, such that the extra money printed in this way is used more for investments in the real economy (infrastructure, sustainability, energy).

When will fixed-income securities bear interest again?
We are aware that the outlined scenario of low interest rates, but not falling much further, is not a positive message for fixed-income investors because you choose fixed-income securities, not only for stability, but also for regular income. But this doesn’t mean that no positive returns can be achieved with fixed-income assets in the coming ten years. Bonds with a risk premium are expected to perform better than deemed safe (government) bonds with a negative yield in many cases. With slightly higher interest rates, ‘fixed-loss securities’ may once again become fixed-income securities.

Equities also attractive in the coming years
Equities can thrive in the coming years in the scenario outlined above, with the assumption being moderate corporate sales growth, low profit growth and a more or less stable valuation. The total return (price appreciation plus dividend) on globally diversified equities would then average 6% per annum. We calculated this as follows: economic growth (3%) plus 1.5% extra growth for listed companies plus 2.5% dividend minus a decrease in profit margins (1%).

This 6% is lower than the historical average for this asset class, but is in line with the also lower economic growth expectations.

Returns well above expectations...
Will there no longer be a recession then? Probably, but we don’t know when. We do not expect a global economic recession in 2020. However, we expect economic growth to weaken further in 2020, from 3.2% to 3.1%. Incidentally, a lower economic growth rate is not necessarily bad news for investors. Just look at 2018 and 2019. In 2018, growth was still 3.8%, but for investors it was one of the worst years since the crisis. In 2019 the opposite is the case: global economic growth is slowing down to its lowest level since 2009 but returns this year (up until the time of writing, early November) are far higher than expected.

... thanks to central bank policies
The most important pillar of success for investors has once again been the support from the central banks. The accommodating monetary policy (increasing the money supply again), reinforced by the flight of investors to ‘safe havens’ such as (government) bonds, has pushed market interest rates down to historically low levels. These low interest rates have further boosted the valuations of risky asset classes because earnings growth has lagged. For this year, the average earnings growth of global equities is expected to be flat. Nevertheless, the valuation of equities is slightly below the average for the past thirty years, while the risk premium on equities is high as a result of the low interest rates. These low interest rates are also a consequence of the consistently large savings surplus for many years: worldwide there is simply too much saving and too little investment, which slows down economic growth and inflation. Due to geopolitical uncertainties, companies in particular are reluctant to make major investments. Furthermore, the demand for capital has declined sharply in recent years due to the shift from production to services in the global economy. We have less demand for stuff and share more with one another. Buying has given way to renting, leasing or a subscription that is easy to cancel. Partly because of this, inflation and therefore the ‘price of money’ (the interest rate) remain low.

But also doubt about the effect of central bank policy
In addition, there are increasing doubts about the impact of the central banks’ incentive measures, in particular the effect of negative policy rates. The artificially low interest rate often turns out to be counterproductive, because the average consumer has started to save more rather than less. There are thus limits to what the central banks can do to put the ‘real’ economy (i.e. not the stock market) into a higher gear. On the other hand, this low interest rate has led to higher valuations on the financial markets. It is not only investments that are regarded as safe (such as government bonds) which have become expensive. Investors are also ‘forced’ to take more risk, which increases the risk of stock market bubbles. Illiquid (i.e. hard to trade) investments, for example, have never been so popular and in some cases this has led to risk/return ratios, which are at the very least questionable. We prefer to stick to investments that are easy to trade on a daily basis.

2020 a challenging year
And that brings us to the outlook for 2020. As you can see from the table, investing in the long term is
quite boring and delivers more than (just) saving. Risk-taking is rewarded in the long run, but is accompanied by uncertainty and short-term price volatility. As already stated, at the beginning of a new decade investors are once again facing a wall of worries, which they will have to climb. Structurally weaker economic growth and political shifts not only make it difficult for central bankers to stay on course, but companies will also have to adapt (even) faster in order to survive. This will also make the playing field challenging for investors in the coming year.

In our baseline scenario, we expect low economic growth and a reduction in geopolitical risks. The trade war between the US and China will not escalate any further and there will not be a ‘no-deal’ Brexit. Of course, there will always be new uncertainties. One that we see coming is the US presidential election. A promising campaign by a more left-wing candidate such as Elisabeth Warren will initially be seen as a threat by the financial markets. In Europe, we expect more pressure (and broader support) for higher fiscal stimuli (public expenditure and investments). Economic indicators such as the purchasing managers’ indices will recover somewhat in this baseline scenario through a combination of stimulus from governments and central banks, followed by a recovery in consumer and business confidence.

These are our expectations for 2020
Against this background, we expect low average corporate earnings growth rates, although these may turn out to be slightly positive in 2020 due to the fact that it compares favourably with 2019 (which is low). Add a reasonably stable dividend yield of around 2.5% to the earnings growth of approximately 2%, and you arrive at an expected equity return of just under 5% (assuming the valuation remains the same). For bond investors, the outlook after the super year 2019 – the best bond year since crisis year 2009 – is less promising. Following the sharp fall in interest rates this year, the initial yields are low to negative. You will only receive a reasonable risk premium on emerging market bonds and on high-yield corporate bonds. In our baseline scenario, we assume that bond yields in Europe will on average fluctuate around current levels and that risk premiums will remain the same. With a diversified bond portfolio, a return of approximately 1% can still be achieved.

Either less...
In our negative scenario, the risks are obviously at the lower end. In this scenario, consumer and business confidence will decline due to increasing (geo) political tensions, economic growth will continue to slow down, unemployment will rise and corporate earnings will come under pressure. A recession cannot then be avoided. Only safe havens such as gold, the Japanese yen and government bonds of countries deemed to be creditworthy can then rise in price.

... or more?
In our most positive scenario, all the risks that we can think of at the moment disappear. A more realistic positive scenario would become a reality if the risks referred to do not increase but, on the contrary, decrease. The prices of risky asset classes, including equities, will continue to rise. But also inflation (as well as inflation expectations) and interest rates

Expected index returns 2020

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Expected Return</th>
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<tbody>
<tr>
<td>High-yield corporate bonds*</td>
<td>6%</td>
</tr>
<tr>
<td>Emerging market debt*</td>
<td>5%</td>
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<tr>
<td>Global equities*</td>
<td>5%</td>
</tr>
<tr>
<td>Global listed real estate</td>
<td>3.5%</td>
</tr>
<tr>
<td>Investment grade corporate bonds</td>
<td>0.5%</td>
</tr>
<tr>
<td>Euro government bonds</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

*) in local currencies (as of 31 October 2019)

Investing entails risks and costs. You could lose all or part of your initial investment. The value of your investments may fluctuate. Past performance is no guarantee of future results. The forecast is not a reliable indicator of future results.
will rise. Central banks will once again change their policies and hint at a reduction of the flow of funds. This could again stifle a euphoric sentiment on the financial markets.

Current tactical asset allocation
At the time of writing (November), we maintain an overweight in equities at the expense of an underweight of fixed-income securities in our tactical asset allocation. But as soon as there are more indications that the negative scenario is unfolding, we will throttle back a little. And it may sound contradictory, but even in the most positive scenario we will eventually decelerate again, especially if prices and valuations continue to rise in the meantime.

Problems and risks are also accompanied by solutions and opportunities
Ten years after the deepest crisis since the 1930s, the world is still facing enormous challenges and many people are particularly focused on the things that can go wrong (again). We, too, are aware of the major risks, but as investors we must also keep an eye on the positive developments, which often go much slower. Problems and risks are also accompanied by solutions and opportunities. Or, as the then President of the United States, Ronald Reagan, said in his State of the Union in 1986: “Never has there been a more exciting time to be alive, a time of rousing wonder and heroic achievement. As they said in the film Back to the Future: ‘Where we’re going, we don’t need roads’.”
At the time of writing, in mid-November, the AEX broke upwards through the heavy resistance zone, which has served as the upper end of the top-forming process during the past two years. Many equity indices already broke through their comparable resistance levels, but the European indices in particular are still moving below the 2018 tops. In my opinion, the upward movement has led to a final overshoot in the equity markets. In the AEX, the first zone for this overshoot is around 600 - 610 and above that only around 640. I consider it unlikely that a powerful new multi-year bull market will start.

The year 2019 can be characterised as a strong upward recovery year, with tops (to date) of just above 600. Only two normal corrections (5-10%) occurred this year: in May and August. The euphoria among investors and analysts is again high and

many technical signals are no longer green. As already stated, an overshoot to higher tops remains possible, but I certainly consider the likelihood of a (delayed) strong, longer-lasting bear market starting in 2020 to be realistic. In addition, it will, of course, take some time before the 2018 bottom is tested at 472 and possibly broken. In the medium-term picture, a structural, i.e. repeated, lock-in below 535 could give the green light for a following downward impulse and a long and sharp decline. The upward potential appears to be technically more limited when there is a significant downside risk in the equity markets.

In the long-term picture of the AEX, we saw a sharp decline in the second half of 2018, when there was a downward break through several rising bottom lines. This was the final signal from the almost ten-year bull market, which started in early 2009. A ‘sideways’ top-formation process occurred in both 2018 and 2019.

Written by Bas Heijink, technical analyst at ING Investment Office
German ten-year yield at a turning point?
The very long-term trend in German ten-year government bond yields is still declining since the top at 9% in 1990. To break this long-term trend, a structural breakout through 1.60% is required. If we zoom in on the past few years, we see a top at 0.60% at the end of 2018. From this top, a declining short-term trend started with a downward breakthrough of the 2016 bottom of around -0.21%. A double bottom arose at -0.71% in August 2019, followed by a clear reversal with an upward breakout through the resistance line, which had been falling since the end of 2018.

It is not yet possible to say whether a final bottom has been established. For 2020, a further recovery trend is a realistic expectation, with a possible advance to the 0.50% - 0.60% zone. However, 2020 may turn out to be a transitional year, with earlier bottoms still being retested before the upward path is continued.
Will the oil price come under further pressure in 2020?
For the technical analysis of the oil price we use the West Texas Intermediate (WTI) in US dollars per barrel. The year 2018 proved to be a transitional year: since the double bottom in 2016 at $29, the WTI showed a strong upward trend. However, the upper end of the rising trend channel was reached at the end of 2018, after which there was a downward break through several rising bottom lines within a short period of time. It thus appears that a top has been formed for a longer period at $76.50.

In early 2019, a powerful upward movement commenced, resulting in a lower top at $66.50, after which a downward triangle developed, a technical pattern. It only appears that this pattern will end upward above $63.50. At the lower end is a strong horizontal bottom at $51. We believe there is a real chance that there will be a downward break through this bottom in 2020, after which there will be room in the longer term technical picture towards the earlier bottoms at $43 and $38.
**Gold price has a lot of upward potential**

With the upward breakout through $1,370, with a gap also arising, the gold price completed a very large multi-year reversal pattern in mid-2019. $1,370 was the neckline of a large inverted head-shoulder pattern that had been developing since 2014.

We now see several ascending bottom lines. The most important starts at the bottoms from the end of 2015 with a low point in the reversal pattern at $1,040. Based on the completion (activation) of this major reversal pattern, a price target of $1,700 can be calculated for the coming years. The most important tops in the long-term picture are at $1,790. In 2020, a retest to the neckline at $1,370 will still be possible, however. A structural lock-in below this neckline would mean a first weakening. A negative turn in the long-term picture only occurs when there is a downward breakthrough of the bottom line, which has been rising since the end of 2015. This currently (early November 2019) already lies at $1,220 again.
Eurodollar rate forms bottom after long downward trend
Following a two-year sideways phase during which the eurodollar moved between $1.04 and $1.15, in the summer of 2017 the upper end of this trading range (bandwidth) was broken and the eurodollar continued its strong upward trend. This ended just below $1.26, after which there was a downward break through the rising bottom line from $1.04. This led to a prolonged downward trend. The current bottom of this was placed at $1.09 in October 2019. This downward phase had three downward gear changes. The last of these formed the steepest downward trend channel, which was broken upwards in mid-October 2019. This appears to be the first step in the formation of a bottom in a reversal scenario for the eurodollar. Only a structural movement below $1.09 would start a new downward movement.

At the time of writing (early November 2019), the eurodollar is testing its second declining resistance line since the September 2018 top. This descending resistance line then stood at $1.12. A structural breakout would complete the bottom formation and thus also end the downward trend. As long as that does not happen, a more sideways trend (trading range) appears to be developing with a bottom at 1.09. A movement above the descending top resistance line creates space to between $1.14 and $1.18. I think this scenario is realistic for the first half of 2020.

Please note: technical analysis differs from normal analysis
Bas Heijink is the ING Investment Office’s technical analyst. He regularly publishes his outlook, but this is separate from ING’s investment outlook.
Technical analysis is a method of analysis where trends and recognisable price patterns are sought in price charts and other market data. Technical analysis therefore differs considerably from fundamental (financial-economic) analysis. Bas Heijink’s technical vision will regularly deviate significantly from ING’s investment outlook, which is mainly based on fundamental analysis, i.e. macro-economic data, operating results and political and demographic developments.

However, technical analysis does form part of ING’s Risk Barometer:

<table>
<thead>
<tr>
<th>Signal</th>
<th>±/+</th>
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</thead>
<tbody>
<tr>
<td>Fundamental</td>
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<tr>
<td>Liquidity/ Interest rates</td>
<td>=↑</td>
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<tr>
<td>Valuation</td>
<td>=</td>
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<tr>
<td>Sentiment¹</td>
<td>=+</td>
</tr>
<tr>
<td>Technical analysis²</td>
<td>=+</td>
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</table>

Source: Metastock, 20 November 2019
Sustainability affects every investor

Sustainability is naturally important to investors who opt for sustainable investing. For example, because they believe that it is unethical to invest in tobacco or weapon manufacturers. Or because they only want to invest in companies that take sufficient care of the environment. And increasingly, the positive contribution (‘impact’) of the company is taken into account in the investment choice. Companies that offer solutions for social or environmental challenges are then given preference.

Also important for ordinary investors
Sustainable developments should, however, also play an important role in the investment decisions of investors who are less motivated by sustainability. There are a number of arguments for this, which are interrelated and have an impact on the profitability of companies. And thus on the potential returns. Let’s examine some of these.

More regulations
In recent years, governments and regulators have issued more and more regulations, especially from an environmental and climate point of view. Examples include the stricter emission standards for cars and the corporate CO2 tax. These regulations usually lead to additional costs: directly, via taxes and indirectly, via investments that become necessary.
But the increase in regulations also offers opportunities to companies that are adapting more quickly. Thus the measures, taxes and stricter standards stimulate sustainable behaviour. In addition, regulations naturally include positive incentives. Examples include subsidies for electric cars, solar panels and wind farms.

But a good regulatory system is sometimes difficult to achieve. Governments are struggling to properly tax internet companies such as Facebook, Amazon and Google. How do they ensure that these companies properly pay taxes in the countries in which they operate? Companies that score well on sustainability are often already prepared for stricter regulations.

Fewer risks
Governments are nowadays paying more attention to compliance with regulations and regulators sometimes impose heavy fines. In recent years, several sectors have been faced with enormous penalties, including the automotive sector (dieselgate), banks (money laundering fines) and internet companies (unfair competition and privacy violations). The more companies focus on sustainability, the more they comply with the regulations and thus the smaller the risk.

Sustainable businesses save money
Not only do sustainable businesses often have lower costs as a result of increasing regulations, but they can also gain additional benefits since they can benefit from lower financing costs. Several banks offer sustainable companies a lower interest rate for loans if they meet sustainability targets. The more sustainable the company, the lower the lending rate. Another form of cost savings from which companies can benefit is the (more) efficient use of raw materials, electricity, water and waste. Not only good for the planet, but also for the cash till.

Social change continues
Social pressure is increasingly being exerted on companies and governments to make themselves more sustainable. For example, various initiatives have been organised, mainly concerning the themes of environment and climate, which require attention and action from companies or governments. These include the global climate strikes by schoolchildren (Greta Thunberg!) and the various initiatives to withdraw fossil fuel investments. Coal companies in particular, but also oil and gas producers, are being targeted by climate-conscious investors.

Shell in the top 3
While the major European oil companies are investing in renewable energy, their US counterparts have done little so far. Nevertheless, the investments of the European super majors are still relatively limited in comparison with the investments in oil and gas extraction. Example: in the coming years, Shell will invest $2–$3 billion a year in, for example, the development of hydrogen, biofuels, wind and solar energy and other green energy technologies. That is only about ten percent of the total investment budget. Nevertheless, this puts the group in the top 3 of sustainable investors in ‘green’ energy.

And the future winners are...
Not only do we expect legislation and regulations to become stricter, but the costs of sustainability (or the lack thereof) will also play a greater role. Social pressure will also increase. According to Marc Carney, Governor of the Bank of England, companies that won’t acknowledge the climate crisis and are therefore not moving towards working without CO2 emissions will be punished by investors, regulators and customers and will eventually go bankrupt. We are also convinced that companies that make a positive contribution to people, the environment and society are better prepared for the future. They are better positioned for the long term, thus also sustainable in the literal sense.

... smart industrial companies...
We expect favourable trends for companies that operate within the traditional industries but offer products and services that make production processes more sustainable and efficient. These include manufacturers of gas scrubbers that remove pollutants from air or gases, such as Alfa Laval. In addition, wind turbine builders are of course a good example of sustainability within the industrials sector. The current share of wind energy in global electricity generation is about 7%. But it is generally expected that wind turbines will have an ever increasing share...
in the coming years. The estimates for this vary, but we consider a doubling of the amount of electricity generated from wind power by 2040 to be realistic. As wind turbine builders, Siemens Gamesa Renewable Energy and Vestas can benefit from this. Companies that are stuck in the old economy and are faced with high costs and investments, and whose management does not aim for continuous innovation, will have a hard time in the coming years.

... and ‘light’ companies
In addition, the companies with business models that are not capital intensive have an advantage in terms of sustainability over traditional companies in the industrials sector. They do not have a cumbersome and expensive production process and need to invest relatively little, but are actually able to grow more strongly thanks to the better scalability of their services.

Car sector starts to mobilise
This is an industry that will be confronted with huge investments in the coming years due to the transition to electric vehicles. This sector also has to make amends following the many scandals, including cartel activities and the diesel scandal. Partly because of the new nitrogen and CO2 emission requirements (and sometimes high penalties), the major car companies have seen a stagnation or even fall in their turnover and profits in recent years. Just at a time when these companies each need many billions in order to invest in the mobility of the future.

Sustainability is also becoming increasingly important in real estate
Real estate may appear to be a fairly stable and static sector, but innovation is also a very important factor. The combination of continuous innovation and sustainability of the real estate portfolio is even crucial for the occupancy rate, attracting retail customers and businesses and ultimately the price of the real estate equity in question. Prologis and Digital Realty, for example, with their logistics distribution centres and data centres, are responding to the increasing demand for cloud services and e-commerce. Measured over the past ten years, they rank among the best-performing equities in the sector.

Within the sector, US and European retail real estate is under strong pressure due to the structural shift to online shopping. The best placed appears to be the real estate companies within this subsector that are constantly renovating their shopping centres and are proactively coming up with creative solutions to attract new kinds of tenants by making them more sustainable and offering an attractive experience to visitors. Only in this way can they compete with webshops. Real estate companies with medium-sized, low quality shopping centres that are unable or unwilling to innovate have been severely punished in recent years. This difference is only likely to increase in the coming years.

Helping customers to become more sustainable
In the materials sector, there is a clear distinction between the new and old economies. We believe that companies that are committed to the sustainability of industrial processes, that themselves contribute to sustainability, such as companies that recycle (precious) metals or that choose to make their product portfolio more sustainable, are far better positioned than companies with bulk materials such as steel and concrete, which have difficulty distinguishing themselves from their competitors and therefore do not have a competitive advantage as this leads to overcapacity and lower prices.

A good example within the materials sector is Ecolab in the US. Ecolab develops and produces hygienic and cleaning products and machinery, which are mainly used in the hotel and catering industry, the food industry, and within the field of healthcare, chemicals, biotechnology and industrial production. In addition, the company is responsible for the treatment of waste water from the mining and energy sectors. Ecolab's products save on water consumption and labour for customers and fit in well with the trend of making industrial production chains more sustainable. We believe that Ecolab's positioning in various growth segments is promising and see opportunities for further development.

Banks and insurers: systems important
Sustainability in the traditional view of ‘green’ and ‘good for nature’ has little influence on the short-term profit opportunities of financial firms. In the longer term, nature does have a great deal of influence,
which may be felt first by the reinsurers. For these parties, which against payment share in the risks of ordinary insurers, the results depend on complex models and multi-year datasets in order to be able to assess the risk of natural disasters, for example. The faster climate change takes place, the more difficult it becomes to predict the risks.

In addition, with European banks in particular, much more attention is being paid to the policy and behaviour of banks where the prevention of money laundering flows is concerned. This means that banks are investing heavily in people and IT systems in order to be able to identify undesirable customers and cash flows. These are investments that initially cost money without generating extra income. However, as we have seen, watertight measures can prevent substantial penalties from regulatory authorities. At the same time, these higher necessary costs also constitute an additional barrier for the sector. The larger banks are better able to bear the burden and enjoy economies of scale in comparison with smaller players.

Pharmaceutical companies want to buy off prosecutions
In the healthcare sector, the negative side of sustainability is a topical issue: asset managers such as ING have already excluded several companies from their sustainable equity portfolios. The opioid lawsuits in the US are a current example of this, with Purdue Pharma being a name that is often mentioned. This company has been found guilty of boosting sales of the highly addictive painkiller Oxycontin, a synthetic opiate. But many other companies in this sector could also be negatively affected by this ‘opiate crisis’ and run the risk of having to pay billions in fines. As a consequence, several pharmaceutical companies already want to effect a settlement in order to leave the opiate crisis behind them. If these companies had more sustainable operations and culture, they would have been able to avoid these risks.
Growth over profitability
Amazon (+1616% during the period 31-12-2009 to 31-10-2019, total return in euros) is a good example of a company that started out small and now has a very strong market position. Founded in 1994 as an online bookstore, the company has grown to become the largest retailer in the world. Amazon usually gives (turnover) growth priority over profitability and invests heavily in this. Amazon recently started a 24-hour delivery service for its most loyal customers, the Amazon Prime members. This requires the construction of additional warehouses for storing and distributing goods in many larger cities. There is also a need for additional investment in personnel, now already around 750,000 strong, and means of transport. In the third quarter, Amazon saw its operating costs rise to no less than $66 billion on turnover of $70 billion.

Turmoil in the retail landscape...
This enormous growth and drive to become the biggest in many existing markets has also attracted a great deal of criticism for Amazon. As a result of this so-called Amazonification, many retail chains have collapsed in recent years and some shopping streets are now desolate. Many companies which realised too late that they had to invest in their online presence have disappeared or are struggling to survive. Examples of the latter category are Ceconomy (-57%), the parent company of Mediamarkt, and the British company Marks & Spencer (-25%). These, as well as the following market returns referred to in

In order to become the biggest or stay the biggest, companies have to invest continuously. Look at Amazon over the past ten years, or at what happens if you don’t invest (Kraft Heinz). In some sectors, companies are being forced to make huge investments due to new laws and regulations. For example in the utilities and automobile sectors.
this article, are also calculated over the period from 31-12-2009 to 31-10-2019, and show the total return (i.e. with fully reinvested dividends) in euros.

... also has a major impact on the real estate sector
Real estate companies with many retail properties in their portfolio felt the pain of the shift from physical outlets to webshops. Unibail-Rodamco-Westfield (+66%), for example, which has clearly lagged behind during the past decade. But there are also real estate companies that have benefited greatly from this development. Companies with real estate portfolios that include distribution centres for the online stores and with data centres for all cloud storage servers, have done very well. Examples of these include Prologis (+511%) and Digital Realty (+393%).

Who can still hold their own against Amazon?
It takes a lot of effort for competitors to rival Amazon. Given Amazon's strong market position and the huge investments it makes to please its customers, it is doubtful whether a company will emerge in the coming years that can seriously compete. In addition to online retail, Amazon has also invested heavily in other promising activities in recent years. With Amazon Web Services, the company is successful in the field of cloud storage and data analysis. With the Amazon Prime Video streaming service it competes with Netflix, among others.

Streaming: the new video store
Anyone who thinks that the Amazon share has risen sharply over the past ten years has overlooked Netflix (+4596%). This company now has around 160 million paying subscribers to its streaming service worldwide and has seen many a video store close down since its appearance. It has grown rapidly by continuously investing in its streaming platform and offering attractive films and series (the 'content'). In recent years, Netflix has been producing more and more of its own content: Netflix Originals. In 2018, it spent over $8 billion on programming. The company recognises that offering strong own productions is important to remain attractive to its viewers. That is also where the greatest risk for Netflix lies.

Competition increasing sharply
Netflix is facing increasing competition from companies that also have strong content. The best example of this is Disney (+491%). With its own Disney films and series, as well as popular names such as Pixar and Marvel, the entertainment company is starting to compete with Netflix. Besides content, Disney has also invested heavily in recent years in the acquisition of media companies such as Fox and ESPN and the streaming platform Hulu. With the introduction of Disney+ and ESPN+ in the coming years it will start competing with Netflix, which of course will no longer be allowed to offer Disney content. With Amazon Prime Video, Amazon is also a formidable player in this ballgame.

The monthly payment for a (streaming) service by means of a subscription is expected to continue to grow strongly in the coming years. But whether Netflix will still be the most successful streaming service in about five years' time is, in our view, very much in doubt. Competition from large companies with ‘deep pockets’ is fierce.

Digitisation and sustainability have a major impact on the economy
The developments outlined above can be grouped under the heading of ‘digitisation’, which has changed the face of the economy over the past few decades and will continue to do so. Another theme that has
a major impact on society and the global economy, and that has many similarities with digitisation, is sustainability.

Substantial investments in sustainable energy generation
In order to achieve the goals of the Paris Agreement, substantial investments must be made in the sustainable generation of energy. The changing energy market is forcing utilities to review their strategy and to specialise. Some will focus on the production, others on the transmission (transport) and distribution (supply to users) of energy. Furthermore, oil and gas companies will increasingly enter this market. The supply of energy will also become more volatile as we become more dependent on renewable energy sources. This means that, in the case of transmission, substantial investments will have to be made in so-called smart grids. These are digitally controlled energy networks to which users can also add (self-generated) energy and which respond intelligently to the changing supply and demand of energy on the network.

Major challenges for the automotive sector
Car manufacturers are also confronted with various aspects of the energy transition to sustainable sources. Sales of fossil fuel-powered cars have been under pressure for some time now due to stricter emission regulations. At the same time, manufacturers must invest heavily in electric propulsion. As a result of European legislation that will enter into force in 2021 and should significantly reduce CO2 emissions, car manufacturers are faced with the choice of either paying hefty fines or investing many billions of euros annually in the electrification of their cars. Furthermore, with Tesla, the major car manufacturers have a formidable competitor in the field of electric car driving.

The next few years will show who emerges as the winner: forerunner Tesla, which has a considerable technological lead but is faced with substantial start-up losses and debts, or the traditional car manufacturers such as Volkswagen, BMW and Daimler (Mercedes), which already have the scale, production facilities and distribution networks to sell and service cars on a large scale.

In the slightly longer term, we expect that autonomous driving (self-driving cars) will also gain a foothold. In this field, car manufacturers face competition from technology companies such as Alphabet (Google), which are investing heavily in this. Finally, competition is also emerging from the platform economy. Uber is the best known example here, but car-sharing platforms like Greenwheels and SnappCar are also gaining in popularity.

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Fiscal stimulus: few specifics yet
The IMF has lowered its forecast for global economic growth to 3.4% in 2020 (we even expect just 3.1%). Playing a role are factors such as declining business confidence, leading to lower investment, and, of course, the trade tensions between the US and China. But the ageing population is also a strong inhibiting factor. Older people generally do not work and consume less. They also have no more children – population growth is one of the strongest drivers of growth.
So-called fiscal stimulus (investments by national governments to boost the economy) has still failed to make an impact. But that may change, of course, and could give a welcome impulse to growth, certainly in Europe. Let’s have a look at the state of affairs in the different business sectors.

Investors want to see the economy continue to grow at a steady pace. Moderate growth often provides favourable conditions for equities. But two factors will hold back growth in the coming years: the ageing of the population and the limited availability of natural resources such as fossil fuels.

The growth of multinationals does not appear to be everlasting...
Until recently, it seemed that companies in the consumer staples sector could grow indefinitely. Every year more turnover for the multinationals that sold their food and drinks to us – and preferably even more the following year. Due to the many product innovations and effective marketing, profit margins remained stable and investors were satisfied. But for many companies in this sector, ‘never-ending’ growth has come to an end.
Food companies that are not focused on the trend towards healthier products are missing the boat. At many previously successful companies, turnover growth is stagnating and cash flow is running dry. While tobacco companies were first of all boycotted by more and more investors because of
ethical objections, the anti-sugar and salt lobby subsequently dished out a hefty rap on the knuckles. And recently, the growth of companies producing real meat products seems to be held back by emerging competitors producing plant-based products.

... but buying up small, innovative companies works
And yet, the traditional daily consumer goods manufacturers are able to resume their growth again by acquiring smaller, innovative local companies that do make a good product but do not have the scale to accelerate their growth. A good example of this is the acquisition of De Vegetarische Slager ('The Vegetarian Butcher') by Unilever. The deal was only concluded last year, but De Vegetarische Slager already has a partnership with Burger King to supply vegetarian burgers ('Rebel Whopper') to their branches in Europe.

Recovery opportunity: Kraft Heinz
Kraft Heinz is a fallen angel (former stock market favourite), which realises that it hasn't got things right in recent years – but now wants to do everything possible to set matters straight. Its major shareholders (with interests worth billions) like Warren Buffet and investment company 3G are risking their good name, which is the reason why they're offering help. Thus, for example, the new CEO of Kraft Heinz, a real marketing man, comes from 3G. By joining forces, an attempt is now being made to boost the value of the billion-dollar brands again. The Kraft Heinz products must become healthier and more innovative, preferably with little sugar and salt and, if possible, contain vegetable meat substitutes. Other candidates for growth in this sector are producers of meat substitutes Beyond Meat and also Impossible Foods, which will soon also seek a flotation.

Automotive sector at the crossroads...
A sector from which, at least for the time being, no strong growth can be expected is the automotive sector. Last year we already wrote that global car sales were probably past their peak and that we would see declining sales figures from 2019 onwards. That assessment proved to be correct. Because of the stricter European environmental standards, but also because of the emission regulations that will come into force in the coming years, car manufacturers will have to invest billions in new electric models that produce less CO2 and nitrogen. This makes it almost impossible for most car brands to increase their growth in the coming years. The sector will first have to invest many billions in the transition from an internal combustion engine to an electric motor.

... remain independent or merge?
For many car manufacturers, these investment requirements are an extremely difficult, if not impossible, task. They are in fact forced to merge: together save costs and see if they can survive that way. Furthermore, we will also need fewer vehicles in the future because of other forms of mobility, such as self-driving taxis and taxi services in a similar vein to Uber. A sufficient number of innovative car manufacturers will naturally be able to survive Tesla's disruption by switching to electric models at an accelerated pace, but for the time being we will no longer be seeing the big sales figures of 2018. We see opportunities for BMW, Volkswagen, Daimler and Toyota. They have made billions in profits in recent years and therefore have the possibility to invest.

Will growth champions like Google find things more difficult?
Telecom operators such as Vodafone and AT&T have to invest in order to show some growth. Basic growth will probably only be around 0% in the coming years – their valuation is incidentally also in line with this. Things can also be different: internet companies like Alphabet (parent company of Google), Tencent and Facebook have achieved extreme turnover and profit growth rates in recent years. However, due to market saturation and slower economic growth, (earnings) growth is likely to decline in the coming years. This expectation is also reflected in the valuations
of analysts, who expect a gradual slowdown in the growth of these companies. However, history shows that such slowdowns (just like growth accelerations) rarely occur gradually. They usually occur in fits and starts and such a deceleration of growth can have an exaggeratedly negative effect on the price, because the valuation is so above average. It is difficult to give a precise timetable for this, but there are several factors that could lead to such a situation.

Chinese online giant: Alibaba
Thanks to its various online marketplaces, Alibaba is a company with very strong growth potential. The group is also China’s largest cloud hosting provider. 59% of the listed companies in China are now clients of Alibaba. It also has a Netflix-like streaming service and is a major player in the field of online payments with the Ant Financial service, which processes the billions of payments made by the 693 million annual users of the online marketplaces. Alibaba still has room for expansion outside China.

Banks more robust
Banks are highly dependent on the economic and credit cycle, with the interest rate level being an important determining factor. The provisions for, as well as actual write-downs on, bad loans are currently at an historically low level. This means that we have to expect these costs to rise again at some point and to be at the expense of profits. But because the banks now have much stronger balance sheets, they will be relatively better able to withstand this.

Bank of America: attractive case
A major US bank that we follow with interest is Bank of America. It is a broadly diversified bank with consumer, business, trading and wealth management activities. Bank of America has a relatively defensive character when it comes to issuing loans. The group is investing heavily in IT. In combination with a strong consumer division and a focus on efficiency, this results in an attractive investment case. Indeed, if economic conditions improve, Bank of America will be able to benefit from the extension of the credit cycle, while being relatively resilient to the risk of more defaults if this extension does not materialise. Its price/earnings ratio of 11.3 times the expected profit in 2019 is slightly lower than the average for the US banking sector (11.8), while the profitability is higher.

‘Defensive’ sector also offers opportunities for growth
Utilities are referred to as ‘defensive’ investments. They are less dependent on the economic cycle for their turnover and are therefore relatively more resilient to downturns. The prices of electricity are usually fixed for a longer period of time by means of long-term contracts, but the price is also determined by supply and demand on the market. Income from power transmission is generally set by governments or regulators at a percentage of the value of the network. The focus for utilities will mainly be on sustainability during the next ten years. The new attention being paid to this by national governments is creating opportunities, for example for Ørsted, the global market leader in the construction and operation of offshore wind farms, which has managed to secure a third of all the public bids. The operating target of ten gigawatts in 2025 has already been almost fully allocated to the bids. This limits the downward revenue risks and increases the likelihood of even more successful bids. We consider Ørsted to be a utility with attractive growth potential.

Traditional materials companies undervalued
After ten years of economic expansion, we are likely to experience an economic slowdown in the coming years. Depending on their nature, traditional materials companies such as mining firms and steel and concrete manufacturers could actually benefit from infrastructure projects initiated or promoted by governments. The stocks of such companies are currently valued relatively low, while the more innovative, sustainability-oriented companies are often on the expensive side. However, the more sustainable products may receive less priority if there is an economic downturn.

Albemarle: producer of raw materials for products such as car batteries
For the somewhat shorter term we are looking at Albemarle, a producer of speciality chemicals based on lithium and bromine and catalysts for US refineries. The demand for lithium, the most important component in batteries for mobile devices and electric cars, is likely to increase in the coming years. As a major producer, Albemarle is well positioned to benefit from this development. The fall in the price of lithium and the recent decline in sales of electric cars have led to a deterioration in sentiment for the shares of Albemarle. It consequently has a relatively low valuation, at 11.7 times the estimated profit for 2020, both in relation to the company’s own history and in relation to the average for the materials sector. Risks include: a further decline in the lithium price, continuation of the Chinese-US trade war and falling sales of electric cars.
Industry relatively dependent on growth
The best-performing listed companies in the industrials sector, as measured over the past decade, offer a diverse picture. Their results are determined both by the general economic recovery and by company-specific developments. Thus, for example, the better-performing companies of the past ten years included US airlines, defence-related equities, companies focused on installation products and (electro-)mechanical products, and companies that supply parts for machines, vehicles and cooling and heating systems. In particular, companies with exposure to the US economy, which have a strong corporate network or take advantage of cost efficiencies, have performed well above average. We expect the results of these companies to follow the US economic cycle. The economy is in the final phase of the cycle, which increases the likelihood that the very equities that have performed relatively well during the past ten years thanks to the strong US economy will lag behind somewhat. If economic growth slows down, it will therefore be important to respond proactively to this with business models and processes, and to keep the balance sheet healthy.

Caterpillar has an excellent brand name
The world's largest manufacturer of construction and mining equipment is the US company Caterpillar. It has an exceptionally strong dealer network with a good reputation and a strong brand name. But many of the segments in which Caterpillar operates, such as the oil and gas sector and the mining industry, have been under pressure for some time and are in a lower phase of the cycle. That cycle will pick up someday. In combination with the replacement demand ensuing from the previous commodities boom (2004-2012), we expect turnover growth to pick up in the coming years. Caterpillar has a relatively low valuation with a price/earnings ratio of 13.4 times the estimated profit in 2020. As a risk, it should be mentioned that it is a fairly cyclical (i.e. economically sensitive) stock, although the management is very experienced and has proven this in the past by being able to maintain margins at a reasonable level, even in less favourable times.

Real estate sensitive to economy and interest rates
A number of types of real estate have benefited globally from the long cyclical recovery. For example, real estate companies with US residential apartments and real estate companies specialising in warehousing have achieved good results thanks to the strong US economy and the recovery of the US housing market since the credit crisis. We expect this development to start reaching its limits now that US economic growth is slowing. In the coming years, the most proactive, largest and innovative real estate companies such as Simon Property and Unibail-Rodamco still seem to be best positioned within the retail property sector. In view of the ageing population, healthcare real estate may also be attractive in the coming years. This sector is less sensitive to a possible economic downturn. Real estate equities that are strongly related to technological services or economic developments (offices, apartment rentals, warehousing, retail properties) are more likely to follow the path of the economic cycle. We suspect that growth will slow down and that new distribution models and, for example, new forms of cloud services may emerge. That is the downside of responding to technological developments; these move very fast and possibly sometimes faster than real estate companies can keep up with.

Unibail: estimated dividend yield of 7.6%
Unibail-Rodamco-Westfield (Unibail) recently reported growth rates that are generally better than the national averages and those of competitors. The share is listed at a substantial discount of 34% in relation to the estimated value of the real estate (net asset value, NAV) per share. It has an attractive dividend yield of 7.6%, based on a high-quality portfolio and a solid balance sheet. In combination with its tireless commitment to innovation, Unibail is one of the world's best-managed real estate funds. Risks include a sharp rise in bond yields, a decline in consumer confidence and structurally, of course, online shopping.

Software and IT service companies dependent on business growth
IT hardware companies and their suppliers have benefited enormously from strong economic growth in recent years. In addition, consumer spending on technology is steadily increasing. More and more products containing semiconductors and software are coming into everyday use. In a recession it will become clear to what extent consumers can and want to postpone the purchase of electronics. For an important category like smartphones, we can well imagine that the replacement rate will slow down. Software and service companies are much more dependent on business growth. There, too, there have been a number of very good years, especially in the most important market, the US. The strongest signals that growth is slowing down are coming from industry, but the service sector will normally follow.
With valuations that are generally high, based on continued strong growth, some risks are becoming visible, however.

Nokia: above-average risk but promising with successful restructuring

One of the last major manufacturers of telecom equipment (besides Ericsson and Huawei) is Nokia. The share price has lagged behind the sector by 75% this year due to Nokia issuing two profit warnings and suspending dividend payments. We do have doubts about the growth and the margin development because the company indicates that the costs for their 5G products are too high and that additional investments are needed to reduce these. With successful margin improvement and resumption of dividend payments, we see potential for a higher valuation. The equity offers an above-average risk but also the chance of an above-average return.
Want to know more?

Do you have any questions? Call us on 020 22 888 88. We will be pleased to be of service!

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