ROBECO
The Investment Engineers

Multi-asset market outlook

November 2021

For professional investors

Sustainable Investing Expertise by ROBECOSAM

General overview

Positions: no major changes

	Portfolio	Benchmark	Active
Equities Developed Markets	25.00%	25.00%	0.00%
Equities Emerging Markets	5.00%	5.00%	0.00%
Real Estate Equities	5.00%	5.00%	0.00%
SPX (US Equities)	-2.75%	0.00%	-2.75%
STXE 600 (EUR) Pr (Europese aandelen)	2.00%	0.00%	2.00%
Nikkei 225 (Japanese equity)	0.75%	0.00%	0.75%
Commodities	5.00%	5.00%	0.00%
Global treasuries	27.50%	27.50%	0.00%
US Treasuries	-3.50%	0.00%	-3.50%
Investment Grade Corp Bonds	18.00%	20.00%	-2.00%
High Yield Corp Bonds	3.50%	5.00%	-1.50%
Emerging Market Bonds LC	5.00%	5.00%	0.00%
Cash	9.50%	2.50%	7.00%

- Stagflation fears continued to be on investors' minds in October. While this led to lower equity and bond markets back in September, this wasn't the case this month. The focus of the equity markets was mainly on third-quarter earnings. In general, it is turning out to be a good earnings seasons. As expected, the references to supply-side disruptions are popping up frequently in earnings calls. The saga of the Chinese property giant hasn't been resolved. While the market seems to have lost a bit of interest in Evergrande, worries are growing over Chinese growth.
- Natural gas prices are almost 50% lower from the high they reached in the first week of October. Crude oil also came off its highs but remains much closer to its peak. Large swings were seen in the rates markets. US 10-year Treasuries traded in a range of roughly 20 basis points and almost reached the highs reached back in March. Inflation expectations have continued to remain firm. The market still believes that most central banks have maintained their inflation-fighting credentials. As a consequence, the long end of the curve was eagerly pushed lower at every hawkish indication from a central bank.
- The size of pair trades in Japanese equities and US equities was decreased during the month. The portfolio remains positioned so that it can benefit from reflation, though that did not work out too well in October.

 Source: Robeco

All market data to 29 October unless mentioned otherwise

Heat Map Asset Returns (in euros)

MULTI ASSET	1mo	3mo	YTD	1YR	3YR	5YR
Oil Index (USD)	12.2%	14.6%	77.0%	137.1%	-13.2%	-2.9%
Global real estate (UH, EUR)	6.0%	5.1%	30.0%	36.3%	9.5%	5.9%
GSCI Commodities (USD)	6.0%	12.3%	54.7%	74.8%	1.7%	4.0%
MSCI World (UH, EUR)	5.8%	6.4%	26.3%	41.3%	17.4%	14.2%
MSCI World local currency	5.5%	4.3%	21.2%	40.4%	17.7%	15.2%
MSCI World (H, EUR)	5.5%	4.1%	20.5%	39.2%	16.0%	13.4%
Global inflation-linked bonds (H, EUR)	1.9%	0.1%	3.5%	5.0%	5.5%	2.7%
Gold (USD)	1.5%	-1.8%	-6.5%	-6.1%	12.0%	5.7%
Emerging Markets (UH, EUR)	1.1%	2.0%	5.4%	17.7%	11.5%	8.2%
Emerging Markets (LC)	0.9%	0.3%	1.6%	16.2%	12.8%	10.4%
EMD local currency (UH, EUR)	0.0%	-1.3%	-2.1%	3.3%	4.3%	1.9%
Cash (EUR)	0.0%	-0.1%	-0.4%	-0.5%	-0.4%	-0.4%
Global Gov Bonds (H, EUR)	-0.1%	-1.7%	-3.2%	-3.0%	2.7%	0.8%
Global investment grade bonds (H, EUR)	-0.1%	-1.5%	-1.6%	0.8%	4.8%	2.4%
Global high yield (H, EUR)	-0.6%	-0.7%	1.6%	8.0%	4.3%	3.2%
EMD hard currency (UH, EUR)	-1.2%	-1.6%	-2.3%	1.5%	3.2%	0.9%

Fixed Income	1mo	3mo	YTD	1YR	3YR	5YR
Inflation-linked US (UH, USD)	1.1%	0.2%	4.7%	7.1%	8.4%	4.7%
Investment Grade US (UH, USD)	0.2%	-1.1%	-1.0%	2.2%	8.1%	4.8%
German Gov Bonds (EUR)	0.0%	-2.0%	-2.9%	-3.4%	1.3%	0.7%
Inflation-linked Europe (EUR)	0.0%	0.1%	4.5%	6.7%	4.8%	3.0%
US Gov Bonds (H, EUR)	0.0%	-1.4%	-3.5%	-3.5%	3.4%	0.5%
Global Gov Bonds (H, EUR)	-0.1%	-1.7%	-3.2%	-3.0%	2.7%	0.8%
Japan Gov Bonds (H, JPY)	-0.1%	-0.7%	-0.6%	-0.5%	0.6%	0.0%
High Yield US (UH, USD)	-0.2%	0.3%	4.4%	10.5%	7.4%	6.4%
EMD hard currency (UH, EUR)	-0.3%	1.0%	3.4%	3.4%	5.1%	2.9%
France Gov Bonds (EUR)	-0.4%	-2.4%	-4.3%	-4.5%	1.9%	1.1%
High Yield Europe (EUR)	-0.6%	-0.4%	3.1%	8.2%	4.6%	4.1%
Europe Non-financials IG (EUR)	-0.7%	-1.9%	-1.3%	-0.3%	2.5%	1.6%
Spain Gov Bonds (EUR)	-0.7%	-1.9%	-3.1%	-2.5%	3.5%	2.4%
Investment Grade Europe (EUR)	-0.7%	-1.8%	-1.1%	0.1%	2.5%	1.7%
Euro Covered Bonds (EUR)	-0.8%	-1.7%	-2.3%	-2.4%	0.9%	0.5%
Europe Senior Financials (EUR)	-0.8%	-1.6%	-0.7%	0.7%	2.4%	1.8%
EMD local currency (UH, EUR)	-1.0%	-1.5%	-2.0%	0.6%	3.6%	1.3%
Italy Gov Bonds (EUR)	-1.5%	-2.8%	-3.1%	-1.7%	6.6%	2.7%

Equities: Country Indices	1mo	3mo	YTD	1YR	3YR	5YR
USA (USD)	7.0%	5.1%	24.0%	42.9%	21.5%	18.9%
Global equities (EUR)	5.8%	6.4%	26.3%	41.3%	17.4%	14.2%
Global equities (LC)	5.5%	4.3%	21.2%	40.4%	17.7%	15.2%
Italy (EUR)	5.3%	6.9%	24.4%	54.3%	15.8%	13.0%
Eurozone (EUR)	5.1%	4.2%	21.8%	46.4%	12.5%	9.4%
Netherlands (EUR)	5.0%	7.5%	29.8%	51.9%	16.1%	12.4%
France (EUR)	4.8%	3.5%	25.8%	52.2%	13.3%	11.8%
Switzerland (CHF)	4.0%	0.0%	16.4%	30.1%	13.9%	12.7%
Hong Kong (HKD)	3.3%	-1.6%	-4.5%	8.0%	3.7%	5.5%
Spain (EUR)	3.2%	4.7%	14.3%	43.7%	3.5%	2.8%
China (HKD)	3.2%	-2.0%	-14.0%	-9.2%	11.5%	10.2%
Germany (EUR)	2.8%	0.9%	14.4%	35.8%	11.1%	8.0%
UK (GBP)	2.2%	4.1%	15.6%	34.5%	4.4%	4.8%
Russia (RUB)	1.7%	10.0%	26.2%	54.2%	20.8%	15.8%
Emerging Markets (EUR)	1.1%	2.0%	5.4%	17.7%	11.5%	8.2%
Asia ex Japan (LC)	1.1%	-0.5%	-0.6%	13.0%	13.1%	10.6%
Emerging Markets (LC)	0.9%	0.3%	1.6%	16.2%	12.8%	10.4%
India (INR)	0.4%	13.0%	25.4%	51.2%	21.2%	17.6%
Australia (AUD)	-0.1%	0.4%	14.5%	27.7%	11.6%	10.6%
Japan (JPY)	-1.9%	6.6%	6.9%	27.8%	11.8%	12.8%
Korea (KRW)	-3.2%	-8.4%	-0.2%	28.8%	13.7%	8.7%
Brazil (BRL)	-6.7%	-15.0%	-13.0%	10.2%	5.8%	9.8%

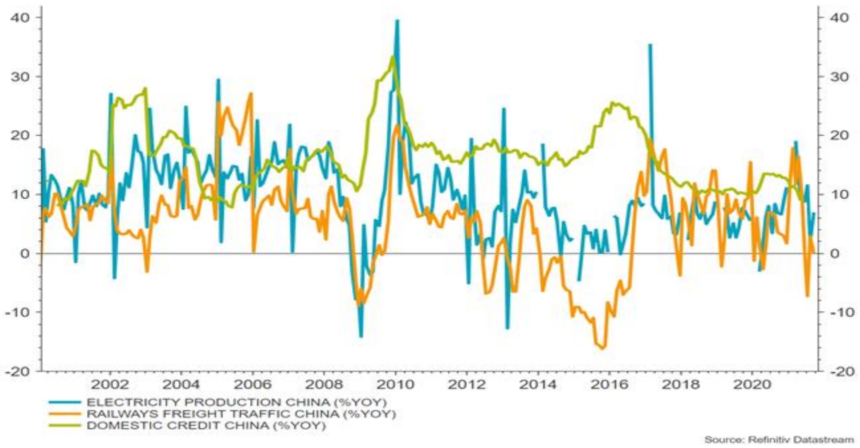
FX versus the EUR	current level	1M	3M	YTD	12M	1m	3m	Ytd	1yr
EURO/AUSTRALIAN DOLLAR	1.54	4.0%	4.9%	3.2%	7.2%	1.60	1.62	1.59	1.66
EURO/NORWEGIAN KRONE	9.76	3.6%	6.7%	6.9%	12.1%	10.13	10.46	10.48	11.11
EURO/RUSSIAN RUBLE	81.94	2.7%	5.6%	9.6%	11.4%	84.21	86.82	90.64	92.50
EURO/CANADIAN DOLLAR	1.43	2.5%	3.3%	7.9%	7.7%	1.47	1.48	1.55	1.55
EURO/SWEDISH KRONA	9.93	2.1%	2.6%	1.2%	4.2%	10.14	10.20	10.05	10.36
EURO/SWISS FRANC	1.06	1.9%	1.5%	2.1%	0.9%	1.08	1.07	1.08	1.07
EURO/BRITISH POUND	0.84	1.7%	1.1%	5.5%	6.1%	0.86	0.85	0.89	0.90
EURO/CHINA RENMINBI	7.40	0.9%	3.4%	7.5%	5.3%	7.47	7.66	8.00	7.82
EURO/SOUTH KOREAN WON	1363.77	0.8%	0.1%	-2.3%	-3.2%	1375.11	1365.69	1332.83	1321.85
EURO/SINGAPORE DOLLAR	1.56	0.8%	3.0%	3.4%	2.0%	1.57	1.61	1.61	1.59
EURO/INDONESIAN RUPIAH	16530.25	0.5%	4.0%	4.4%	3.1%	16612.38	17216.68	17284.80	17065.58
EURO/HONG KONG DOLLAR	8.99	0.2%	2.5%	5.0%	0.4%	9.02	9.23	9.47	9.03
EURO/US DOLLAR	1.16	0.2%	2.6%	5.4%	0.8%	1.16	1.19	1.22	1.16
EURO/INDIAN RUPEE	87.28	-1.4%	1.4%	2.8%	-0.5%	86.10	88.54	89.76	86.83
EURO/JAPANESE YEN	131.77	-2.2%	-1.2%	-4.4%	-8.1%	128.88	130.23	126.18	121.93
EURO/BRAZIL REAL	6.52	-3.4%	-5.4%	-2.7%	2.6%	6.30	6.18	6.34	6.69

Source: Bloomberg

All market data to 29 October unless mentioned otherwise

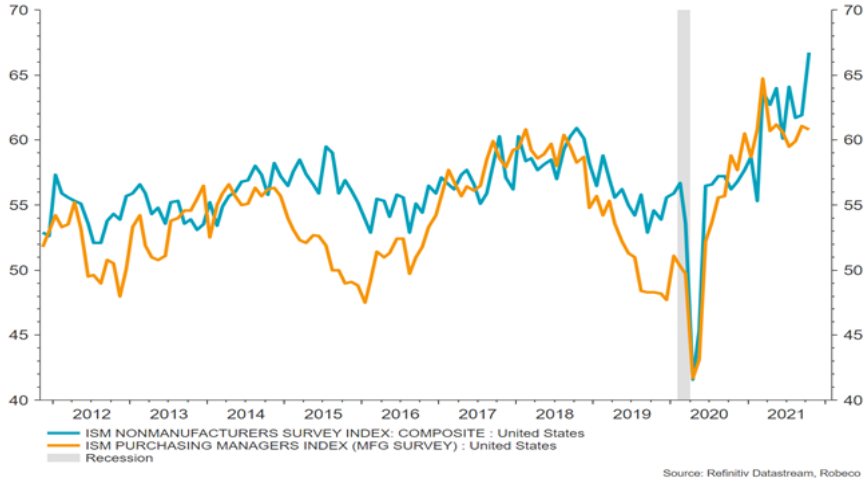
Economy (I)

China: real economy indicators suggest slowdown



Source: Refinitiv Datastream & Robeco

US sees record high services activity



Source: Refinitiv Datastream & Robeco

> The global growth momentum showed signs of stabilization in October after increasingly negative macro surprises in September. Signs of recovery from the September energy crunch in China emerged from the Caixin manufacturing survey, which increased from 49.6 to 50.6, indicating expansion of activity again. However, the official manufacturing survey still showed continuing contraction of activity, while the new orders sub-index showed contraction for the third consecutive month. Covid-19 outbreaks, supply constraints and power outages have dented growth in recent months and still cloud the near-term outlook.

> In addition, the ongoing regulatory crackdown in China is unfinished. Even though credit spreads have overall stabilized in the hard hit onshore real estate sector, and as Evergrande has averted default by making payments within the grace period, the all-clear signal has not been given. There is only a marginal relaxation visible in the stringent policy rules for the sector lately. In addition, the credit impulse in China has not notably improved, signaling more downside risks to near-term growth.

> In the US, Q3 GDP growth advanced by 2.0% (quarterly, annualized), mainly driven by private inventory investment and personal consumption. However, the latter notably slowed in comparison with the previous quarter as rising Covid-19 cases and rising energy costs discouraged spending. The US consumer is able to weather rising input costs for now, given a further improvement in the labor market outlook and healthy wealth levels.

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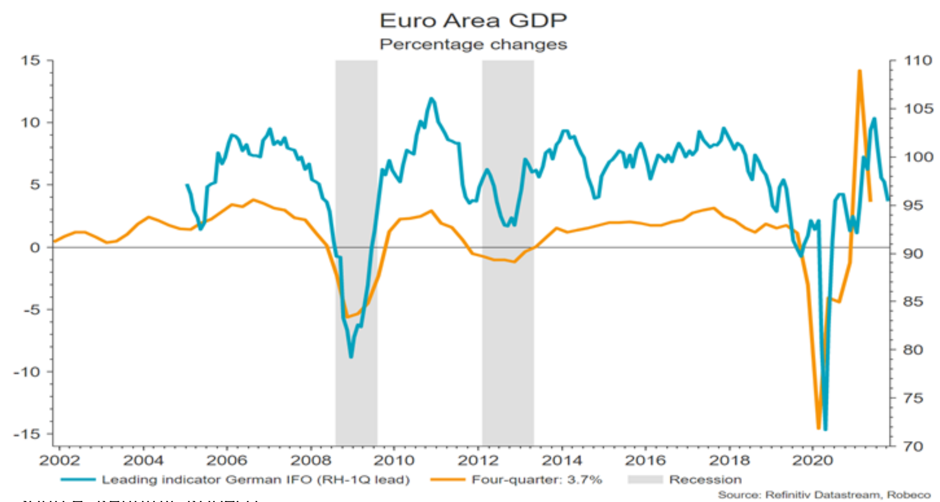
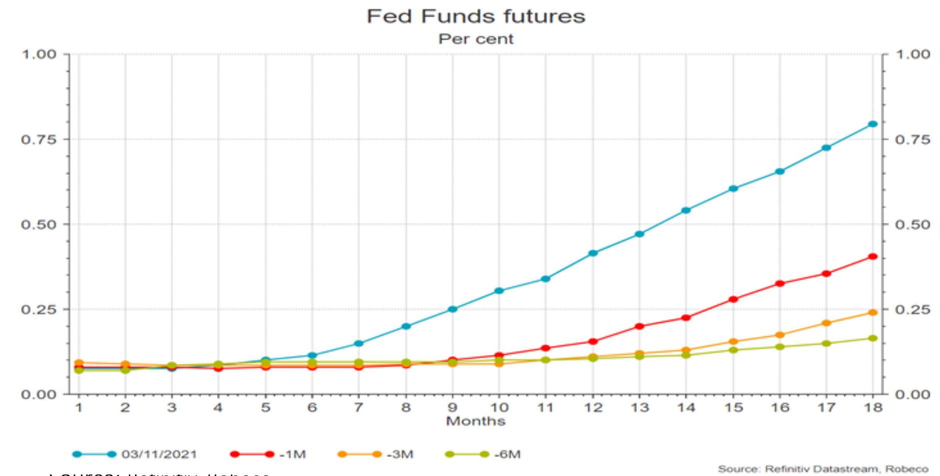
Economy (II)

The Eurozone has above-trend growth which is decelerating



Source: Refinitiv, Robeco

Steeper futures curve: three Fed hikes fully priced in the next 18 months



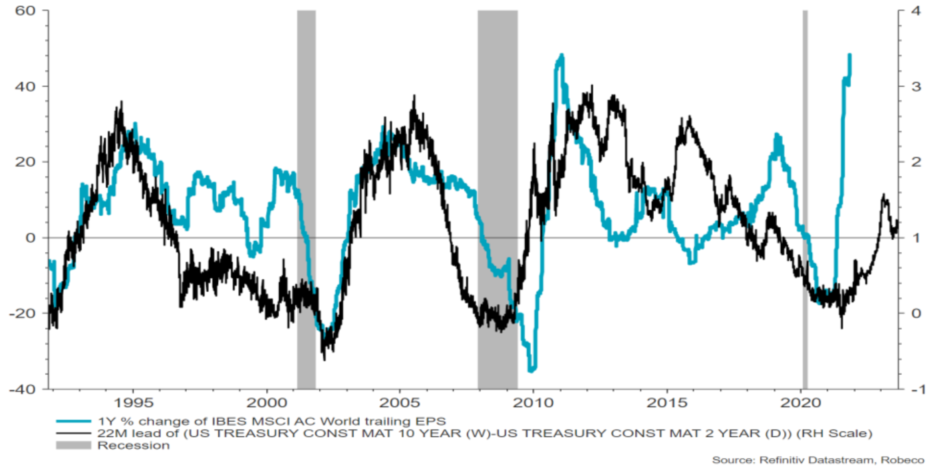
Source: Refinitiv, Robeco

- In the Eurozone, Q3 GDP growth increased by 2.2% (quarter on quarter) above consensus expectations. Export growth and strong domestic demand were the key drivers. The Eurozone has now almost trended back to pre-Covid-19 GDP levels. However, there are notable underlying growth divergencies. While France has already fully recovered from the pandemic shock, Spain still sees GDP growth that is 6.6% below pre-Covid-19 levels, with unemployment at 14%. In the near term, with winter approaching, Europe's energy supply instability remains a key risk factor for manufacturing activity.
- In reaction to continuing inflation pressures, it seems as though some central banks are no longer taking it slowly when it comes to exiting their loose monetary policies. We have seen the first tightening moves by Norges Bank, the Royal Bank of New Zealand and various emerging market central banks, as they are generally satisfied with the economic recovery on the one hand, but also fear that high inflation might prove less transitory. This concern is fueled by higher incoming inflation prints, strong labor market data, lingering supply chain constraints and rising commodity prices. Recently, the Bank of England and Bank of Canada unexpectedly joined this bandwagon by signaling that policy tightening might be imminent.

Equities (I)

Regional momentum: US and frontier markets are the YTD winners

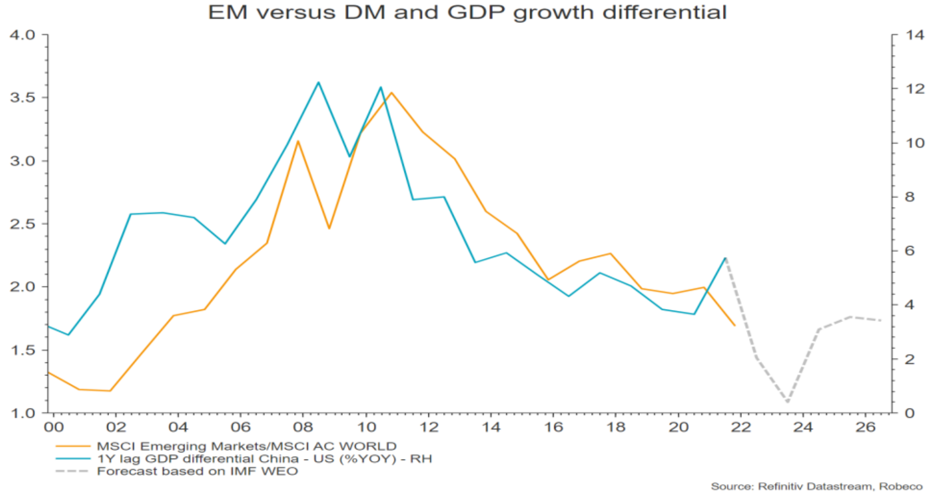
A bear flattening of the curve typically leads to decelerating EPS



Source: Refinitiv Datastream , Robeco

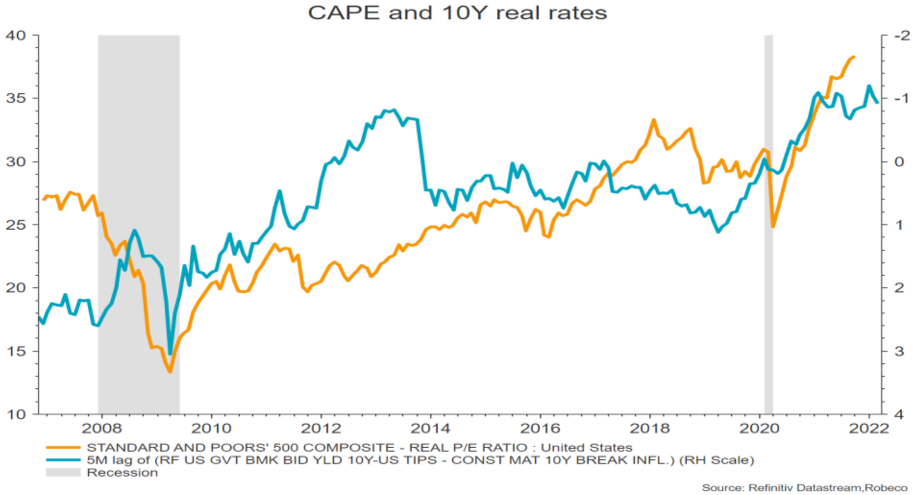
- In October, positive momentum was reinvigorated for equities, with the MSCI World index in euros gaining 5.8%. The US equity market led the pack with new record highs (+7.0%) though Japan (-1.9%) and Brazil (-6.7%) both fell. Late October saw a surge in front-end rates and a bear flattening of the US yield curve. The very long end of the curve even inverted, signaling potential trouble ahead for the business cycle. The recent inflation scare led to frontloading of central bank rate hikes and their anticipated balance sheet reductions. Historically, there is a positive correlation between the shape of the yield curve and the subsequent earnings outlook. Yet, the US equity market has remained undeterred by the turmoil in the bond market. Why?
- First of all, the Q3 earnings season shows that corporates are taking rising input costs largely in their stride, with profit margins overall increasing to 12.4% against expectations. So far, 83% of companies have beaten expectations, and in contrast with the previous earnings season, these companies also saw positive stock price reactions. Second, despite the bond turmoil, US real rates have remained in deeply negative territory, sustaining equity multiples. Third, the signal from the recent yield curve flattening is perhaps weak as this harbors technical factors like CTA bond buying and significant month-end rebalancing.
- Looking at our framework, the sentiment for equities is neutral. On the one hand, retail positioning looks less bullish, which is positive, though the elevated SKEW index suggests nervousness by professional investors about a reversal of the current subdued volatility environment. Momentum and seasonality are positive.
- From a macro point of view, the outlook for the developed market consumer still looks bright given improving labor market prospects, excess savings and historically high net household wealth. This should underpin top-line growth.

EM: a worsening GDP growth differential with DM



Source: Refinitiv, Robeco

US equities: low real rates matter



Source: Refinitiv, Robeco

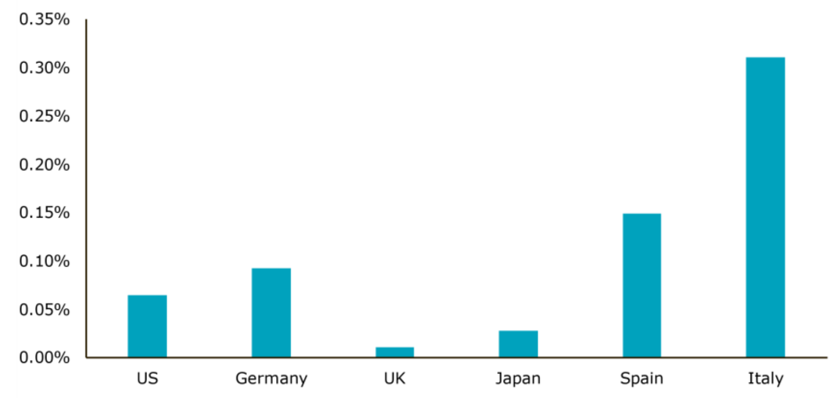
Yet, there are downside risks to this outlook, given declining consumer sentiment levels which suggest that some are starting to balk at elevated energy and consumer good prices. Also, the Chinese economy, which accounts for 30% of global growth, is showing signs of increasing contraction. There is no evidence yet of strong monetary easing to counteract the current slowdown resulting from the regulatory push and the energy crunch. Therefore, the Chinese regulatory crackdown remains a relevant worry for us in the near term. The market could underprice this risk as a contraction in Chinese growth will indirectly hurt global equity markets. Some local emerging market equities derive 25-45% of their revenue from China, but even some sectors in the US are not immune, as a sizeable chunk of their revenues also come from China.

Another risk is an unexpected decline in global excess liquidity given where equity valuations are now. There has been a strong correlation between central bank balance sheets and equity market performance, driven by underlying multiple expansion in the past decade. With the Fed likely to start tapering its bond purchases by mid-November, the tide of almost unlimited excess liquidity is slowly starting to recede, while other developed market central banks are already embarking on a policy rate tightening cycle.

In the next 6-12 months we expect equity valuations to become more sensitive to a modest rise in real interest rates. Absolute equity valuation levels still point to stocks being very expensive, with the Shiller CAPE now at 39, a level only observed during the heyday of the IT bubble in 2000. In contrast with then, real rates are expected to remain subdued while equity risk premiums are much higher compared to 2000 levels, limiting downside risk. Nonetheless, we will wait for more clarity on the Fed, the China credit impulse bottoming out and receding stagflationary sentiment in the bond market before upgrading our equity exposure. We therefore remain selective risk takers within equities.

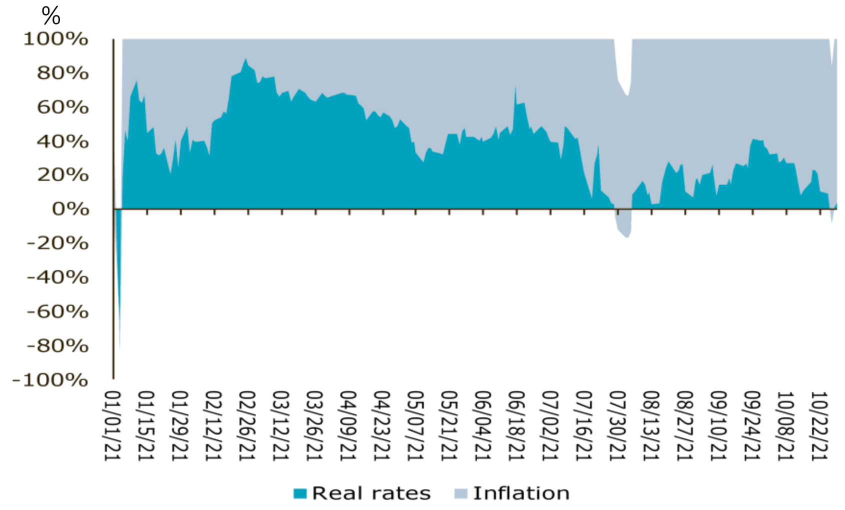
AAA Bonds

10-year yields: peripherals are under pressure



Source: Bloomberg, Robeco

US 10-year swap rates: drivers of cumulative change



Source: Bloomberg, Robeco

> The 10-year US Treasury bond yield moved in a range of around 20 basis points this month and at one point almost reached the high made back in March. While in March the US 10-year’s yield was largely pushed up by real rates, this time around the driver was inflation. Currently the real 10-year rate is back around the same level as it started this year. The big move in peripheral rates was a reaction to the latest ECB meeting, where the market thought President Lagarde didn’t push back forcefully against market expectations of a coming tightening.

> With supply side issues still lingering, it remains unclear how transitory the current inflationary pressures will be. Some central banks, however, are starting to become less comfortable with the inflation prints and the market is starting to take notice. In October, the time to the first rate hike by the Fed was almost cut in half from around 15 months to just above eight months. Based on the 5y/5y inflation swap, inflation expectations are the highest they have been for seven years. However, in the period between 2004 and 2014, they were between 2.50% and 3.30%, putting the current level at the lower end of that range.

> The time window between 2004 and now covers two hiking cycles. The 2004 cycle started when the 5y/5y inflation swap rate was above 3%, but in 2015 the Fed started hiking with this rate just above 2%. We think inflation expectations are not at critical levels yet. Also, supply side issues will not be resolved by hiking rates. If the Fed does indeed follow the hiking path that the market expects, this would be a policy mistake. For now, we think the market is getting ahead of itself, and therefore we continue to hold on to our underweight duration position.

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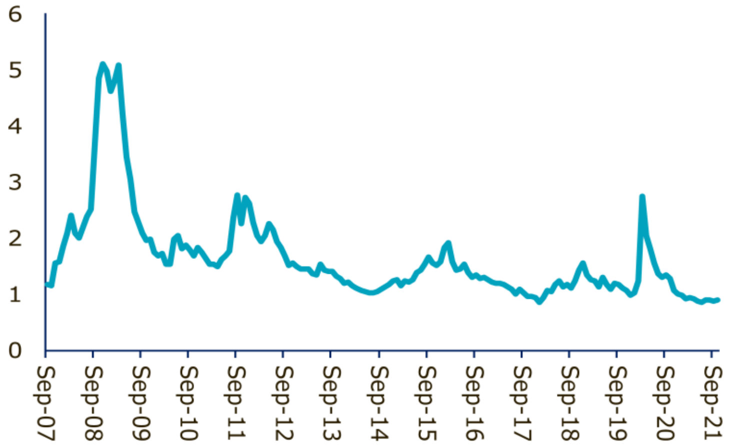
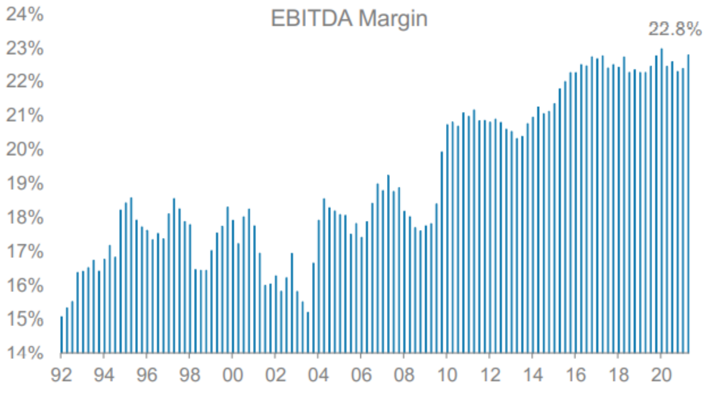
Investment Grade Credits

Investment grade credits have marginally tightened



Source: Bloomberg, Robeco

US IG fundamentals: EBITA margins are at healthy levels



Source: Morgan Stanley, Bloomberg

> Global investment grade bonds delivered a positive return in October. The index unhedged to US dollars delivered 3 basis points, but when hedged to euros, the index lost 14 basis points. The spread continues to trade in a narrow range and widened marginally this month.

> Stagflationary fears remained a topic for markets. This was most noticeable in the beginning of the month when fixed income asset classes suffered from rising government bond yields and higher spreads. The rise of the latter was, however, marginal compared to the rise of the former. Spreads continue to trade in the narrow range they have been in for the past four months.

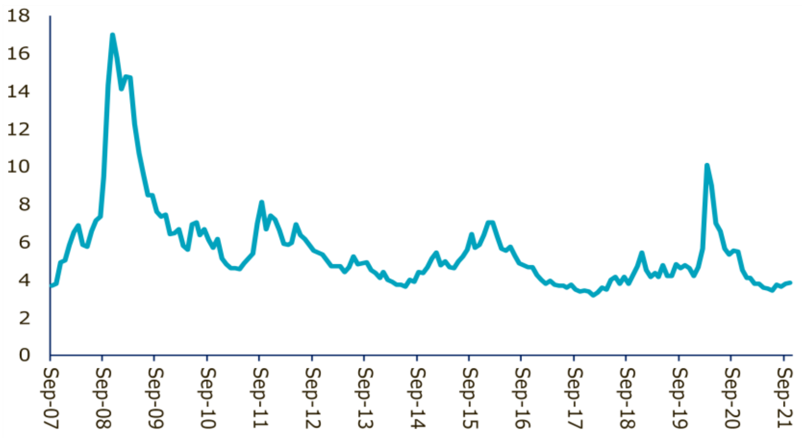
> The upward pressure on government bond yields was caused by the continued rise of inflation expectation due to worries about higher energy prices and supply side disruptions. Also, the market is getting more nervous about rate hikes as we are getting more and more indications that central banks are starting to be less comfortable with the higher inflation prints.

> Fundamentals (liquidly, EBITDA margins, etc.) remain supportive for the asset class. However, going forward, investors will face a less favorable environment as growth slows and monetary support becomes less supportive. Although spreads are near their 20-year low, we see no immediate reason for them to widen in the near term.

> Still, we think that the risk/reward of holding corporate investment grade corporates is not favorable as we continue to expect government yields to rise further. We remain underweight global investment grade credits.

High Yield

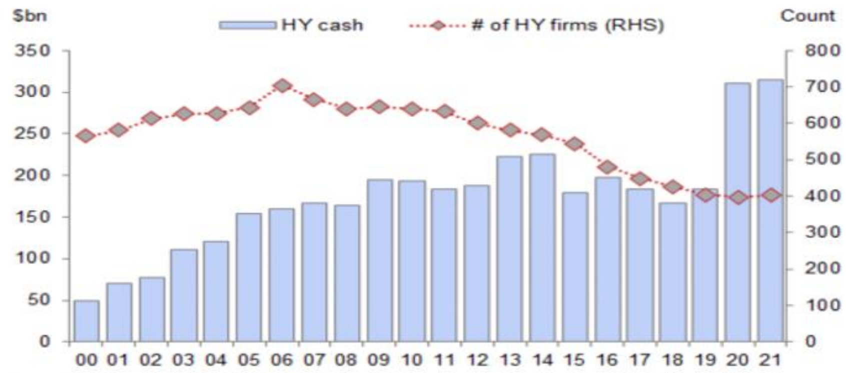
Global high yield spreads ticked up in October



Source: Bloomberg, Robeco

High yield: companies' cash on balance sheets is substantial

Cash, cash equivalents and marketable securities on balance sheet for US-domiciled, HY-rated borrowers, as of each calendar year-end balance sheet date



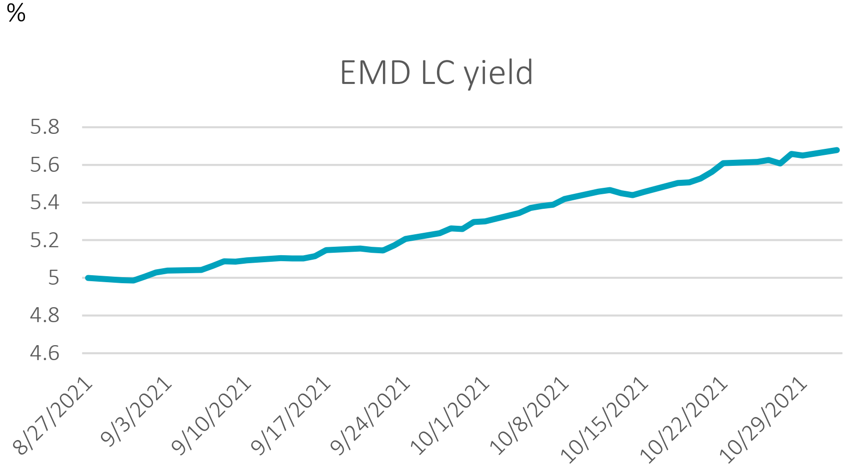
Note: 2021 is as of June 30, 2021.

Source: Factsheet, IBoxx & Goldman Sachs Investment Research

- Global high yield bonds lost 54 basis points in value in October. The average spread widened for a second month in a row to 383 basis points.
- Stagflationary fears remained a concern for markets as inflation continued to move higher. This initially weighed on high yield spreads and other risky assets such as equities, but pressure started to ease towards the end of the quarter. High yield spreads then began to recover but firmly lagged the recovery of equity markets, which even went on to reach new all-time highs for the year.
- European high yield spreads widened relative to US spreads. This was mainly caused by the composition of the indexes, as the US index has a higher exposure to energy companies.
- The impact of the substantial increase of issuance is starting to show. In the US, the cash that companies have has increased substantially. This indicates that the balance sheet repair phase is mostly behind us and will lead to a lower level of cash to be attributed to debt repayment and more towards M&A, shareholders and capex. Since upcoming refinancing needs are manageable and default rates are still low, high yield fundamentals are still OK. To us, this is almost fully reflected in the spreads that continue to hover around their 17-year low. The fact that the recovery in equities was stronger than in spreads indicates that while valuation might not be a reason to sell, it is a constraint for further aggressive tightening.
- We currently prefer to have a lower risk profile in the portfolio. Given the current spread levels, we decided to implement this by lowering our exposure to high yield in favor of cash.

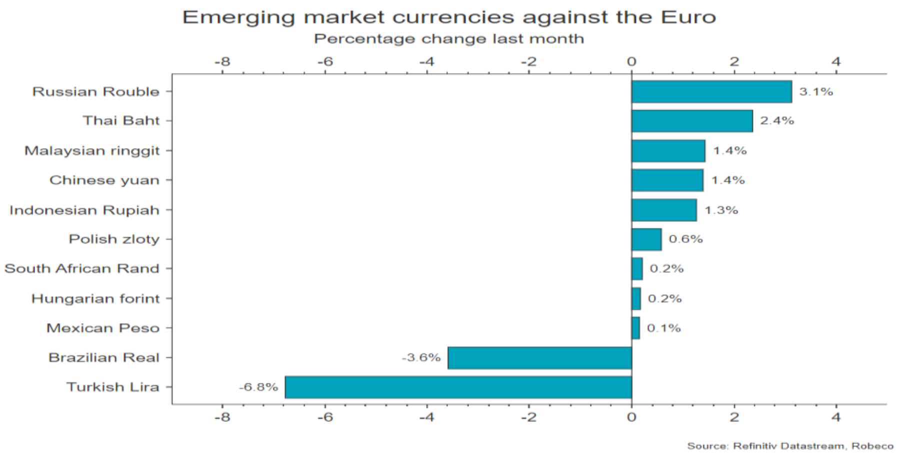
Emerging Market Debt

Emerging market debt LC yields increase as central banks tighten



Source: Bloomberg, Robeco

EM FX : The ruble keeps momentum from oil rally



Source: Refinitiv, Robeco

- With several emerging market central banks pre-empting the Fed by embarking on a rate hike cycle earlier this year, EMD local yields have increased, with the index yield of the JP Morgan GBI-EM Global Diversified index rising since August. Momentum for the asset class has remained negative since then. The index has again been one of the weakest performing in fixed income markets, losing 1.0% in euros in October.
- Local sovereign debt market yields widened in response to a worsening global backdrop. As the Fed starts tapering, an expected near-term increase in US Treasury net issuance and rising inflationary pressures in EM (the recent surge fertilizer prices suggest a further increase in food prices) mean the pressure for a further rise in yields is likely to continue. On top of that, uncertainty remains about the spillover risk from the Chinese regulatory crackdown, such as via a decline in Chinese demand for EM exports. Credit spreads widened further in October, especially in Brazil where the central bank is battling soaring inflation (now at 10.3%).
- From a valuation perspective, EMD LC does not look very attractive from an absolute point of view as yields remain below their historical average. Yet, EM currencies continue to look cheap on a relative PPP basis. This suggests upside in the medium term. In addition, from a relative perspective the risk/reward balance in EMD LC looks more favorable compared to global high yield.
- The outperformance of the ruble continues on the back of strong oil and gas prices, improving Russia's current account balances. We remain neutral on local currency emerging market bonds given the elevated risk of spread widening and risks around Fed tapering, warranting potentially higher yields to keep capital flowing to EM.

All market data to 31 October unless mentioned otherwise

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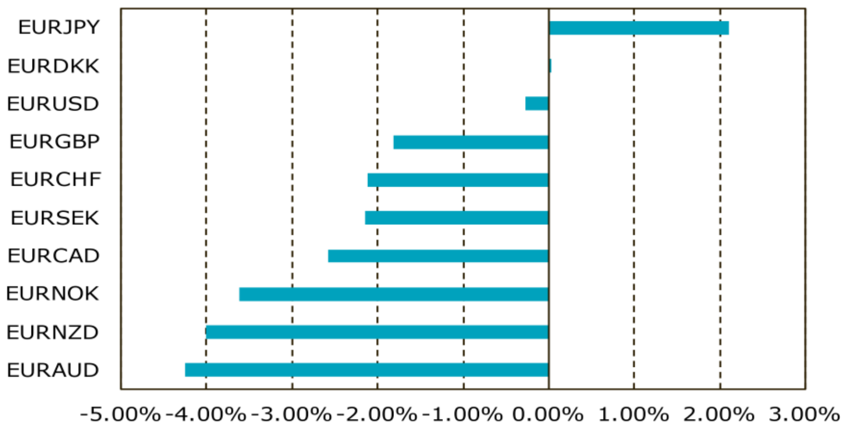
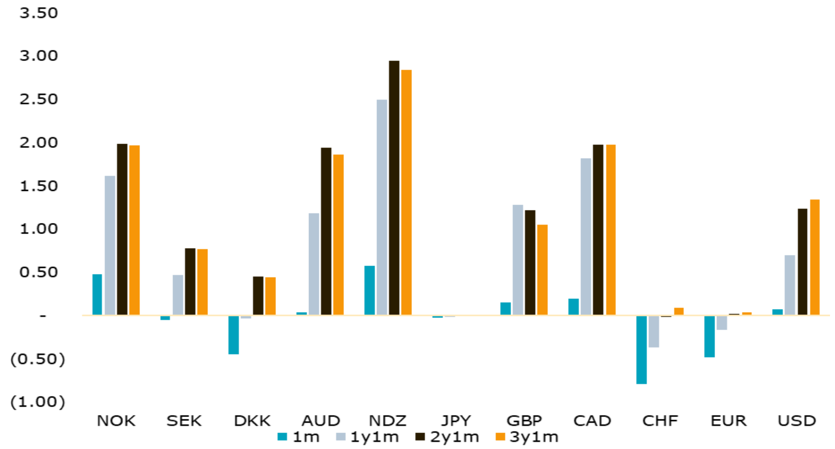
FX

G-10 currencies: those with hawkish central banks win



Source: Bloomberg, Robeco

Rates expectations are the main driver of currencies



Source: Bloomberg, Robeco

> The European single currency came under pressure in October. Within the G-10 basket, it only managed to hold its ground against the Japanese yen. The best-performing currency was again the Norwegian krona. The combination of rising oil prices and a hawkish central bank is keeping a firm bid for the currency.

> The dominant force for currency markets remains the rates market. This was clearly visible in the performance of G-10 currencies this month. Future returns will continue to be driven by expectations on how rate differentials develop.

> This focus on monetary policy is understandable as we have reached the point where it will be dialed back. The latest comments by the Central Bank of Canada indicates that it will be the next in line to follow in the footsteps of Norway and New Zealand. A difficult tasks lies ahead for central banks to guide the market through this process of policy withdrawal to prevent the market from pricing in unwarranted rapid tightening and thereby triggering substantial currency strength. How difficult this is was already visible. The rates prospects for the US dollar remain favorable compared to those of the euro. Still, the single currency appreciated against the greenback after the last ECB meeting after President Lagarde failed to convince the markets that the rate path that it has priced in was inconsistent with that of the ECB.

> Recalibrating policy at a time when inflation prints are coming in higher and the pace of growth is slowing is going to be a challenge for central banks. In this highly uncertain situation, the risk is that markets start extrapolating policy actions and trigger unwarranted tightening. For now, we prefer to have no active currency positions.

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